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HOW ARE CONTROL MECHANISMS OF THE
PARENT FIRM USED TO PROTECT AN
INTERNATIONAL BRAND IN THE SUBSIDIARY'S
LOCAL MARKET?

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Abstract

Title

How are control mechanisms of the parent firm used to protect an international brand in the subsidiary's local market?

Problem

The amount of literature on international business studies on branding in the service sector is relatively limited, even though the brand is thought to be more valuable for services than for goods (Papasolomou and Vrontis, 2006). The relation between a subsidiary and the parent company affects the marketing strategies used in the local market of the subsidiary (cf. Solberg, 2000). Local adaptation and standardization regarding branding is a well-studied area within the international business studies for manufacturing firms, not in service firms (cf. de Chernatony et al., 1995; Solberg, 2000).

Purpose

The purpose of this thesis is to understand how a parent company controls its subsidiary in order to protect an international soft service brand in the local market of the subsidiary.

Research Question

How are control mechanisms of the parent firm used to protect an international brand in the subsidiary's local market?

Method

The case study approach was used. The company selected for the study is the Swedish full-service bank Svenska Handelsbanken AB. Three employees of Svenska Handelsbanken at different positions were interviewed. Secondary data were used as a complement to the primary data.

Conclusion

An international soft service brand can be maintained in the subsidiary's local market by using core values of the brand, a strong corporate culture, hiring local managers and educating influential groups about the brand.

Key Words

International Business, Branding in the Service Sector, Communication Strategies, Control Mechanisms, Management Localization, Local Market and Soft Services

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Chapter 1 Introduction

Branding strategies differ between the sectors of services, durables and fast moving consumer goods (FMCG) (Mann and Kaur, 2013). For services, the strategy of corporate brand is predominant (cf. *ibid.*). Corporate brand strategy means that the company uses only the corporate brand name for all channels of communication (cf. Mann and Kaur, 2013 referring to Gary and Smeltzer, 1985; Murphy, 1987; Laforet and Saunders, 1994; Laforet and Saunders, 2005). Purchasing services are in general associated with higher risk than with purchasing products (Mann and Kaur, 2013 referring to Mitra, Reiss and Capella, 1999; Zeithaml, 1981). Therefore, corporate brand strategy is preferable for service firms due to the aspect of higher risk associated with purchasing services compared with goods (Mann and Kaur, 2013 referring to Berry, Lefkowitz and Clark, 1988; Berry, 2000; Burt and Sparks, 2002; de Chernatony and Dall'Olmo Riely, 1999; McDonald, de Chernatony and Harris, 2001).

Furthermore, the brand is considered to be more important for services than for goods due to the intangible characteristics of services (Papasolomou and Vrontis, 2006). For services, intangibility signifies that it is difficult to provide a clear and concrete image of the service (McDougall and Snetsinger, 1990). Therefore, the brand is important for a service firm since it helps customers to understand the intangible features of the service (Berry, 2000). Services are divided into two groups: hard services and soft services (Erramilli, 1990). Hard services have certain similarities with manufactured products, which means that the point of production and the point of consumption can be separated from each other. The soft service has the opposite characteristic, the point of production and the point of consumption cannot be separated, hence soft services are inseparable (*ibid.*). A hard service can embody physical form e.g. a document, this is impossible for a soft service firm. Therefore, soft services are characterized by intangibility (cf. *ibid.*). In the literature, the choice of entry mode during the internationalization of services is affected by the characteristics of services (*ibid.*). Since more service firms internationalize due to the liberalization of the service sector (Venzin, Kumar and Kleine, 2008.), and due to the importance of a service brand (Berry, 2000; Papasolomou and Vrontis, 2006), branding strategies should be an important topic for the international context of service firms.

For some time, international brand marketing and international marketing mix have been topics for the issue of standardization versus adaptation, especially in the dimension of

cultural diversity, cost savings and consistency with customers (Buzzell, 1968; de Chernatony, Hallibuton and Bernath, 1995; cf. Solberg, 2000). Even though this is a studied area within international business, the issue of standardization versus adaptation of the brand is limited to the manufacturing industry (cf. de Chernatony et al., 1995; Solberg, 2000). The issue of standardization versus adaptation is connected with the organizational structure. Firms with autonomous subsidiaries tend to adapt their marketing strategies to the local market, whereas firms with strong central power use the same profile in different markets (Solberg, 2000). Therefore, the relation between the parent company and a subsidiary affects the marketing strategies (cf. *ibid.*). A company that wants to internationalize its brand should use common core values for all markets, but adapt the execution of the brand to local preferences (cf. de Chernatony et al., 1995; Lannon, 1991). Execution of the brand concerns issues such as packaging, product content and promotion (de Chernatony et al., 1995).

Since the relationship between the subsidiary and the parent firm affects the marketing strategies (cf. Solberg, 2000), it is important to understand what tools the parent firm use to control its subsidiary. Multinational corporations, MNC, can use different control mechanisms to coordinate their subsidiaries (Martinez and Jarillo, 1989; Martinez and Jarillo, 1991). Control mechanisms can be divided into two groups: formal and informal (Martinez and Jarillo, 1989; Martinez and Jarillo, 1991). The corporate culture is one of the informal control mechanisms; it is a system of ideology that is internalized into the firm (Martinez and Jarillo, 1991). In the literature, corporate culture is considered a powerful tool to help shaping a soft service brand (Papasolomou and Vrontis 2006; cf. Venzin et al., 2008).

Problem Discussion

As mentioned above, the brand is more important for a service firm than for a manufacturing firm, since service firms are highly dependent on their brand credibility (Baek and King, 2011; Papasolomou and Vrontis 2006.). Even though branding is vital for the service firm, and despite the fact that service firms internationalize, branding strategies used by service firms is a relatively limited research area for international business studies. Local adaptation and standardization regarding branding is a well-studied area within the international business studies concerning manufacturing firms, not in service firms (cf. de Chernatony et al., 1995; Solberg, 2000). Since the brand is more important for services than goods (Papasolomou and Vrontris, 2006), it is surprising that the dilemma of local adaption versus global standardization has not been studied regarding service firms. Since the level of standardization or adaptation of the marketing strategy in the local market depends on the

relation between the parent firm and the subsidiary (cf. Solberg, 2000) it is interesting to understand how the parent company can control its subsidiary in order to preserve the brand in a new market. Therefore, the purpose of this thesis is to understand how a parent company acts to make sure that its subsidiary behaves in the way that the parent company wants it to in order to maintain the brand in the local market.

Purpose

Since research on branding strategies used by service firms in an international context is limited, concerning the importance of the brand for a service firm and regarding the effects the relation between the parent company and the subsidiary has on marketing strategies; the purpose of this thesis is to understand how a parent company controls its subsidiaries in order to protect the brand in the local market of the subsidiary.

Research Question

How are control mechanisms of the parent firm used to protect an international brand in the subsidiary's local market?

As will be discussed in detail in the method part, to answer my research question, I decided to do a case study on a soft service firm. The choice fell on the Swedish full-service bank Svenska Handelsbanken AB.

Delimitations

The focus of this thesis is delimited on the subsidiary level, the parent company and the relation between them regarding the brand. The parent company level is included to show how the parent company acts to control its brand in the local market of the subsidiary. However, the main focus of the thesis is the subsidiary level. Furthermore the thesis is delimited to branding concerning the soft service sector.

Chapter 2 Literature Framework

In this chapter the relevant theories for my thesis are presented. The literature framework includes studies that have been part of the framework since the beginning (e.g. literature on service brands and characteristics of services), while other studies have been added during the research process due to understandings gained from the interviews (e.g. literature on corporate culture, control mechanisms and internalizing international brands). The literature has been a compass for the empirical collection and vice versa.

Services and Branding

A brand can be a design, a name, a sign, a symbol or a term, and it has to be differentiated from those of competitors (Kotler, Armstrong, Wong and Saunders, 2008; Papasolomou and Vrontis 2006). The brand is vital to create recognition for the company, both nationally and internationally, since both personnel and clients can associate themselves with the brand (Papasolomou and Vrontis, 2006).

The brand is essential for a business in the service industry; it is considered even more important for services than for goods since services have intangible characters and the brand will have a symbolic meaning for the service firm (Baek and King, 2011; Papasolomou and Vrontis 2006). In the literature, the organization itself is considered to be the service brand (Berry, 2000). A service firm is dependent on the brand's credibility since brand credibility will affect the perception of the brand (Baek and King, 2011). In fact, a brand considered to have high credibility will be associated with quality and less risk-taking (ibid.). In the service sector, brand credibility will also affect the behavior of customers, creating loyal clients in less need of searching for another alternative (ibid.). For example, Richelieu, Lopez and Desbordes (2008) are authors from the literature concerning international branding in sports. Like Baek and King (2011) they highlight the importance of brand reputation during the internationalization of sports brands. Brand reputation can be used by companies that gradually enter new markets since they can rely on the success they have gained in the country of origin. When sports team internationalize gradually it allows the teams to highlight their records and history (ibid.). In sports, the team can rely on the prestige associated with their brand (ibid.).

The specific characteristics of services distinguish them from products (Mortimer, 2002). The features of services can help us understand what aspects service firms should consider regarding their brand. Therefore, the characteristics of services will be discussed in the next

section in order to investigate the importance and relevance of branding in the service sector such as the examples that have been pointed about in this section.

Soft and Hard Services

In order to discuss and understand the differences between soft and hard services, we start by focusing on the differences between services and products.

In comparison to products, services are characterized by intangibility, inseparability, perishability, heterogeneity and ownership (Mortimer, 2002; Zeithaml, Parasuraman and Berry, 1985). These characteristics play a crucial role in understanding a service brand, especially the features of intangibility and inseparability. Intangibility signifies the degree to which a service cannot provide a clear and concrete image (McDougall and Snetsinger, 1990), since a service is a performance while a product is an object (Zeithaml et al. 1985). In contrast to a product, one cannot see a service, feel it, smell it or taste it in the same way as with a product, which is why services are considered intangible (ibid.). In general, the point of production and the point of consumption occur at the same time for a service, which is the explanation of inseparability (ibid.). The characteristics of heterogeneity signify that the quality of service can vary between producers, it can vary for different customers and the quality can vary on a daily basis (ibid.). Perishability means that a service cannot be saved nor stored (Bessom and Jackson ,1975).

Erramilli (1990) divides services into two different groups; hard and soft services. He describes hard services as the type of service where the production is separated from the consumption of the service. Packaged software, engineering design and R&D services are some examples of hard services. A soft service is explained as a type of service where the production and the consumption occur simultaneously, hence it is characterized by inseparability. Soft services are e.g. healthcare, advertising, fast food and management consulting (ibid). Another important difference between hard and soft services is that a hard service has tangible features and can embody physical form e.g. a document while a soft service cannot (Erramilli, 1990).

Ball, Lindsay and Rose (2008) distinguish soft services further by dividing them into a next level; location-intensive soft services and information-intensive soft services. Retailing and fast food are two examples of location-intensive soft services while management consulting and market assessment are examples of information-intensive soft services (Ball et al., 2008;

Harvey, 1992). The information-intensive soft services are even more intangible than the location-intensive soft services since the information-intensive soft services transform input information to output information to meet the demand of the client (Ball et al., 2008). The information-intensive soft services are therefore characterized by customization (ibid.). Hence, one can think of an information-intensive soft service as the softest of services. The client depends on the knowledge and skills of the service producer, while the service producer is dependent on information about the client and the client's needs in order to produce the service. Therefore, information-intensive soft services rely on customization (Ball et al., 2008). In the literature services such as advertising, marketing research and financial services are referred to as knowledge-intensive services (Venzin, Kumar and Kleine, 2008). According to Venzin et al., (2008), retail banking belongs to the soft service category.

The brand and branding of a service will be affected by the characteristics of services; intangibility, inseparability, perishability, heterogeneity and ownership. In the literature, Berry (2000) suggests that the brand is important for a service firm since it helps customers to understand the intangible features of the service. Regarding financial services, that belong to knowledge-intensive soft services (Venzin et al., 2008), Papasolomou and Vrontis (2006) state that it is the organization itself and the people within the organization that contribute to the formation of the service brand. The perception of the brand depends on the performance of the firm meaning that the brand depends on the way the firm interacts with its clients. Once again this fact has its origin in the characteristics of services; inseparability and intangibility (ibid.).

The literature on international branding in the service sector is relatively limited; most of the studies of international branding are from the manufacturing industries. The literature that was found regarding branding in the service industry concerns brand credibility, the characteristics of services and customization of services (Baek and King, 2011; Ball et al., 2008; Eramilli, 1990; Papasolomou and Vrontis 2006; Zeithaml et al., 1985). Despite the limited literature regarding international branding in the service sector a few authors concerning international branding in sport were found such as Couvelaere and Richelieu (2005).

The next section concerns local adaptation of international brands. The literature on branding regarding local adaptation and global standardization is mainly limited to the manufacturing industry (cf. de Chernatony et al., 1995; Solberg, 2000). Therefore, the majority of the literature on international branding in this thesis will be based on studies from the

manufacturing industry rather than the service industry. As mentioned, indeed an understanding purpose of the thesis is to increase the readers understanding of service brands.

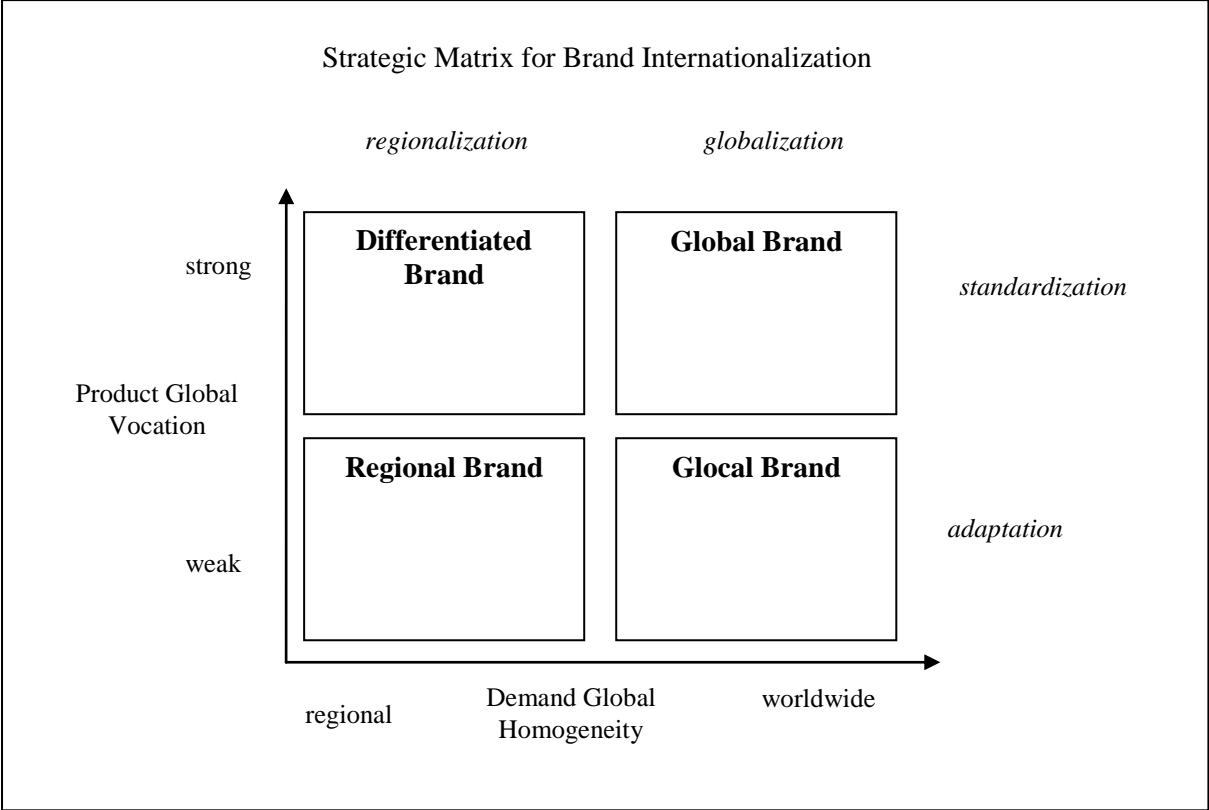
Local Adaptation of an International Brand

An international brand should be built on common core values (de Chernatony et al., 1995). It has been stressed that the brand should not be standardized; it is rather a question of the degree of standardization that the brand should have (Buzzell, 1968; de Chernatony et al., 1995). As suggested by Buzzell (1968) the subject of brand standardization is a matter of a continuum of options with extreme standardization on one hand and total adaptation on the other. According to the literature, it is the execution of the brand that should be adapted to the local market, not the core values of the brand (cf. de Chernatony et al., 1995; Lannon, 1991). This signals the importance of the core values. The core values will help differentiate the brand from competitors, and contribute to value added (de Chernatony et al., 1995). There are other authors pointing out the importance of core values and brand execution. Couvelaere and Richelieu (2005) are authors from the area of international branding in sports. They refer to the importance of brand identity and brand positioning of sports brands during the internationalization phase. Local sports brands that want to become national sports brands can use identity and positioning as factors to attract new fans and to increase the loyalty of present fans (ibid.).

Ghantous (2008) designed a matrix explaining different strategies that can be used during the internationalization of a brand. The matrix is in line with the ideas of Buzzell (1986) and de Chernatony et al. (1995); it is based on two dimensions product global vocation and demand global homogeneity (see figure 1 below). The matrix discusses four different strategies regarding brand execution and brand essence (Ghantous, 2008). Companies that market products or services that have a high level of global vocation and a high level of global demand homogeneity, such as computers, should standardize both the brand essence and the brand execution. The brands are called global brands. Companies that market products or services that have a low level of global vocation and a low level of global demand homogeneity e.g. food are called regional brands. These sorts of brands should adapt both the execution and the brand essence. The third type of brands are the glocal brands. Products or services belonging to the glocal brands have a low level of global vocation but a high level of global demand homogeneity. Therefore the brand essence should be standardized and the brand execution should be adapted. The last type of brand explained in the matrix are the differentiated brands. Products or services in this category have a high level of global

vocation but a low level of global demand homogeneity e.g. banking. The brand execution of these brands should be standardized and the brand essence should be adapted to the new market (ibid.).

Figure 1. Ghantous (2008, p. 7)



Cf. Solberg (2000) is another author from the area of standardization and adaptation of international brands and he focuses on how the relationship between the subsidiary and the parent firm influences the marketing strategies of MNCs. Autonomous subsidiaries tend to adapt their marketing strategies, which can result in differences between markets (Solberg, 2000). It is not necessarily a disadvantage, but when the pressure of global competition increases, the MNCs are in need of controlling their marketing strategy. At this stage, it will be difficult to implement a common marketing strategy since the subsidiaries already have developed their own (ibid.). Therefore, Solberg (2000) suggests that when the level of integration between the subsidiaries, and the level of integration between the subsidiaries and the parent company increase, the demand of a common marketing strategy increases as well. It has been suggested that an esprit de corps (i.e. feeling of pride, care and support for each other that are shared by members of a group) could be used to help create a common marketing strategy among the different subsidiaries (ibid.).

The two following sections will focus on the different types of control mechanisms that MNCs can use to control their subsidiaries and the informal control mechanism corporate culture will be developed, since the relationship between a subsidiary and the parent firm has an impact on the marketing strategy (cf. Solberg, 2000).

Mechanisms of Coordination in MNCs

A mechanism of coordination is described as an administrative tool used to carry out the needs of the integration within MNCs; the needs of integration between the subsidiary and the parent company (Martinez and Jarillo, 1989; Martinez and Jarillo, 1991). The mechanisms of coordination are divided into two groups; formal and informal mechanisms.

The formal mechanisms refer to *departmentalization*, which is how the organization is divided into subunits, *centralization*, which is the degree of decision-making at a high level of the organization, and *formalization*, signifying to what extent policies, rules, job description etc. are put on paper. They contribute to *standard routines*. *Planning* could be described by the example of budgeting. Last of the formal mechanisms is *output control*, which is to what extent performance is measured (ibid.).

The informal mechanisms refer to; *lateral relations*, which means that managers of different units are temporarily or permanently integrated by e.g. teams to solve common problems; *informal communication*, which is an informal network of personal contacts of managers of different units (ibid.). The informal communication could take the form of a trip or a personal visit between managers of different units. Last is the *organizational culture*, which is described as a system of ideology which is internalized within the firm (Martinez and Jarillo, 1991). The corporate culture can be implemented by hiring expatriates, visits between subunits, the transfer of managers between sub-units and a strong socialization process within the organization. According to Martinez and Jarillo (1989) the corporate culture is a key to the function of a decentralized organization.

If a subsidiary is well integrated with the rest of the organization, the level of coordination necessary is considered to be high (Martinez and Jarillo, 1991). It is also thought that the use of informal mechanisms will first be introduced when the formal mechanism of coordination has been used to its maximum. An autonomous subsidiary has a low level of integration and therefore less need of coordination, hence the use of both formal and informal mechanisms is low. As the level of integration rises, the tendency to use informal mechanisms becomes higher (ibid.).

MNCs can use expatriates in a new market, which is when an employee from the home market moves abroad to work for the MNC in the new market (Fayol-Song, 2011; Hill 2011). Management localization is the opposite of the use of expatriates; the MNC hires local personnel in the new market (Fayol-Song, 2011). Management localization has become more popular due to advantages such as cost reduction, gaining knowledge of the local market, avoidance of expatriation drawbacks and the possibility of retaining and developing local managers (ibid.). The use of local managers is also a way for the MNC to adapt to regulatory forces in the host market (ibid.).

Expatriates are offered expensive compensation packages for working abroad for the MNC (ibid.). The compensation package concerns costs such as accommodation, fees for children attending school and annual trips home etc. These costs can be avoided by hiring local managers. Hiring local managers to avoid costs regarding the compensation package can also be a disadvantage. There is a risk that the local managers can feel less appreciated (ibid.). This seems to be the case in emerging economies, such as China, where salaries are still low compared to what they are in western countries (ibid.). There are other disadvantages concerning expatriates. An expatriate could return home before he/ she has finished the assignment (ibid.). There is also a risk that the expatriate will show poor performance (ibid.) It is common that expatriates are abroad for two to three years before returning home, contributing to instability of employment (ibid.). This can be avoided by hiring local managers (ibid.).

Local managers can contribute to in-depth knowledge of the host market compared with expatriates (ibid.). Hiring local managers makes the employees in the host market feel appreciated. There is a risk that the MNC will prevent local employees from developing by only using expatriates, therefore does the MNC risk to lose local talents by only using expatriates (ibid.). On the other hand, it can be difficult to find managers who have the right competence in the host market; this is mainly a problem in less developed countries (Hill, 2011). Moreover, corporate culture is easier to implement on the subsidiary level by using expatriates and core competence of the parent company can be transferred to the subsidiary by using expatriates (Hill 2011; Martinez and Jarillo, 1989). Management localization contributes to independence of the subsidiary, which could result in the emergence of "little kingdoms" within the MNC (Hill, 2011).

The literature on international branding in sports has connection to the literature on expatriates and management localization as well. When a regional sport brand wishes to internationalize and gain national recognition it could be wise to hire national star players (Couvelare and Richelieu, 2005). Moreover, national sports brands that want to become international brands can hire foreign players who are considered stars in their country. These are strategies to gain a wider recognition of the sport brand.

Corporate Culture and Administrative Heritage

In the previous section it has been demonstrated how corporate culture can be used as a tool for control and coordination in an MNC but what corporate culture is has not been displayed. Therefore, the meaning and definition of corporate culture will be discussed and developed in this section. Furthermore, this section will focus on the area of administrative heritage.

For a few decades corporate culture has been described as the climate and the practices that are developed within in an organization to organize and control its people (Schein, 2004). Corporate culture has also been explained as the espoused values of an organization. The corporate culture takes place below the surface of the organization; it is often an unconscious action that is invisible for us to see (ibid.).

Schein (2004) describes the elements of corporate culture. The corporate culture contributes to the structural stability of the organization since the culture will define the group and create group identity. The organizational culture is the deepest part of the organization due to its intangible feature and its effect on unconscious actions that takes place inside the organization. The corporate culture has deep as well as broad impact on the organization. The culture is everywhere within the organization and covers all aspects of it.

According to Schein (2004), corporate culture and leadership coexist within the organization. The culture defines who will be a good leader of the organization meanwhile it is the leader who can implement the culture within the organization. In order to develop organizational culture the group members of the organization have to share a common history (ibid.). The formation of culture requires a leader. It is the vision, goal, beliefs, values and assumptions of the leader that will help create the corporate culture. If the resulting outcome of the leader's behavior is successful, over time, it can form the culture of the organization. For this to happen, the leader's behavior has to be reinforced until it is less conscious to the group and

until the behavior is taken for granted. At this point, the leader has contributed to the formation of the corporate culture.

Another way to explain corporate culture is by examining the different levels of the corporate culture (ibid.). Schein (2004) divides corporate culture into three different levels based on the depth of the corporate culture.

The first level is called *artifacts* and are the parts of the culture that we can feel, hear and see (ibid.). Some examples are the architecture of the organization, the language that is used, how people dress and stories told about the organization. Routines also belong to the level of artifacts, as well as formal descriptions. The artifacts are the visible structures and processes within the organization but the underlying meanings are hard to understand for an outside observer.

The second level is called *espoused beliefs and values* (ibid.). This level is directly connected with the process of creating a corporate culture. If the outcome of the leader's behavior is successful and if the leader can convince the group to act in the same way, the vision, goals and values of the leader will become a shared value of the group. This is the level of espoused beliefs and values.

The third and deepest level is the *underlying assumptions* (ibid.). It is the part of the culture that is taken for granted within the organization. These beliefs are nonnegotiable and one cannot be part of the organization if he/she does not share them. The underlying assumptions are viewed as the reality and function as a "*mental map*" for the behavior in the organization (ibid.). In the process of shaping a corporate culture, this is the final step and level. If the leader's vision and goal have a successful outcome and are implemented over and over again, they will transform into an underlying assumption (ibid.).

Like corporate culture, administrative heritage influences the organization. Administrative heritage is the corporate history and "the way of doing things" within a company (Ghoshal and Bartlett, 1998). The administrative heritage is shaped by the role of leaders, the national culture and organizational history of the company. Companies that internationalize face the challenge of new environmental demands. These challenges are faced in the context of the company's existing organizational capabilities shaped by historical and structural factors.

Companies within the same sector can use different strategies during internationalization due to their different administrative heritage (ibid.).

The Internalizing of International Brands

Corporate culture is referred to as an ideology living inside the organization. To be able to use corporate culture as a tool of control, it has to be internalized into the firm (Martinez and Jarillo, 1991). Martinez and Jarillo (1989; 1991) explain how corporate culture can be internalized into the organization but not in terms of branding which will be explained in this section.

An international business should use corporate culture as a tool to fuel the brand since it is considered to be difficult to reach out with brand understanding in a large international organization (Tarnovskaya and de Chernatony, 2011.). The brand understanding of an organization can be achieved in three stages; *conceptualizing the brand*, *comprehending the brand* and *activating the brand*. The conceptualizing of the brand takes place on the corporate level. Senior managers write manuals that will substantiate the brand e.g. a document telling *Our Way* or the *Code of Conduct*.

Comprehending the brand is the process of awakening brand understanding, and it concerns both tangible and intangible aspects of the brand. In the case study of IKEA made by Tarnovskaya and de Chernatony (2011), the tangible values are described as e.g. that the personnel only flies second class during travels or that they are cost conscious in their operational work such as product development. The intangible values refer to how people within the organization interact with each other e.g. in terms of informal language and dress code. Comprehending the brand also relates to finding the right personnel that understand how the staff work within the organization and why they do what they do. This should be a person who wants to work in the same way as they do at the company; it should be a person who shares the values of the company. Culture and values are important aspects of the comprehending process of the brand.

Activating the brand is a brand-activating process that takes place on the local market in the minds of the local personnel. The brand is born on the local market. Managers educate local employees about the brand and help them to interpret the values of the brand. Later on, the employees will spread the brand to the customers. The process of finding the right people concerns strict recruitment policies that take place at this stage.

The conceptualizing and comprehending of the brand take place on the corporate level while the activating of the brand take place within the organization, at the local level and outside the organization (ibid.).

The internalizing of the brand in an international business is possible due to corporate culture. Corporate culture is used as an assurance that the values of the brand will be maintained in the right way. The corporate culture is also efficiently fueled by telling the story of the business' founder. Tarnovskaya and de Chernatony (2011) found that the correct enactment of the brand was obligatory for every IKEA store.

Summary of the Literature Framework

In Chapter 2, the characteristics of soft services have been discussed in order to find a deeper understanding of what international soft service firms should take into consideration while working with international brand strategies. The question of brand standardization or brand adaptation has been raised since it is a relevant question to consider regarding the role of the subsidiary and the brand in the new market. Control mechanisms, mainly informal control mechanism such as corporate culture, have been discussed since corporate culture is a useful tool to gain brand understanding in the local market. Moreover, the advantages and disadvantages of different staffing policies, such as management localization and expatriates, have been outlined.

Chapter 3 Method

Research Approach

The purpose of this research study is of an explanatory nature; to understand how a parent company controls its subsidiary in order to protect the brand at the subsidiary level. The purpose is of an explanatory nature since the research question concerns operational links which have evolved over time (Yin, 2009). The purpose of the research also concerns a contemporary phenomenon which has to be studied in its real life context (Yin, 1994; Yin, 2009). The case study approach makes it possible to study a phenomenon in a real life context since it uses the technique of interviewing people (ibid.). Since the purpose of this thesis is to understand how a parent company controls its subsidiary in order to protect the brand in a new market, the research question has to be studied in its real life context (ibid.). These are the reasons why the method of case study was chosen.

Choice of Case

Soft services are characterized by intangibility (Erramilli, 1990). Advertisizing, management consulting and banking are some examples of soft services (Erramilli, 1990; Venzin et al., 2008). Since the brand is crucial for a soft service firm, and brand credibility is an indicator of quality and less risk, I wanted to study a soft service industry that is associated with risk-taking (cf. Baek and King, 2011; Papisolomou and Vrontis, 2006, Venzin et al., 2008). Therefore I chose the banking sector since it concerns people's and companies' banking transactions.

The firm chosen was Svenska Handelsbanken and their expansion in the United Kingdom . The choice of Handelsbanken is a revelatory choice, due to access of information (Yin, 2009.). Handelsbanken has expanded its concept to five home markets outside Sweden. The expansion in the UK has been a successful expansion. The growth has been fast; one new branch has been opened every 10th day during the last years. In 2012, the British market was the second largest market of Svenska Handelsbanken and it will continue to be an important growth market. The choice of the expansion to the UK market seemed right on time, not too distant, nor too close. The UK expansion would still remembered by the personnel and they would have gained valuable understanding and experience from the process. Therefore, the expansion of Svenska Handelsbanken in the British market was chosen to be the case for this case study.

Data Collection

The empirical data are from both primary and secondary sources. The primary data have been collected by in-depth telephone interviews, and the secondary data were collected from the annual report 2012, the webpage of Handelsbanken and the booklet History of Svenska Handelsbanken, which can be downloaded from their webpage. The method to use interviews was chosen since they could contribute to a deeper understanding and give access to detailed information. It was important to get an understanding of how the bank has worked to protect the brand over time, from the beginning of the British home market, until today. Each interview was done by telephone due to time pressure and geographical distance. Specific topics were discussed during the interview (see the appendices). The secondary data were chosen since they have added facts and figures, as well as important dates about the bank and the expansion in the British market. The information in Chapter 4 is what I had access to. I could not get access to deeper information regarding the recruitment process and the education process of influential groups since these concern confidential information.

The interviewees were Richard Winder, Head of Communications UK, Magnus Uggla, Executive Vice President, member of the Senior Management Team and Head of Handelsbanken International, and Adrian Bennett, Manager at the Enfield branch in the UK. The sampling consisted of snow ball sampling by talking to staff at Handelsbanken International, Centrala informationsavdelningen in Stockholm (sub-unit in Stockholm regarding information about the bank) and my colleagues. Richard Winder was chosen since he has knowledge about the communication activities of the bank at the national level in the UK market and could show the relation between the national level and the branch level in the UK market as well as the relation of the British subsidiary to the parent company. Magnus Uggla was chosen because he has a long experience of working at Handelsbanken; the expansion of the bank in the Nordic countries and in the British market since he participated in them. Magnus Uggla helped to show the relation of the parent company to its subsidiary. Adrian Bennett was chosen since he is a manager at a branch in the UK market. He helped by modulating the story from the view of the local level in the British market.

Research Process

I have worked with the case and the literature at the same time, constantly moving between the two. The starting point was with the literature on service brands and the characteristics of service. My first attempt was to investigate how ownership affects international branding

strategies in services and the connection to entry modes. Therefore I tried to find literature concerning international branding in services but it turned out to be difficult.

The empirical part of the research process began with the interview with Richard Winder and the question of how Svenska Handelsbanken has worked with the brand in the British market. During the interview it became clear that the people within the organization, corporate culture and control mechanisms were important factors regarding the international brand strategies used by Handelsbanken rather than ownership. The research question in its final state began to be formed after the first interview.

The second interview with Magnus Ugglå occurred a few days later. During this interview the importance and the impact of the corporate culture on the brand were highlighted even more. Therefore, the literature on control mechanisms within MNCs and the literature on corporate culture was selected during this time of the research. At this point the strategy of using local managers was also identified and the literature on expatriates and management localization was chosen. After the interview with Magnus Ugglå, it was possible to see the relationship between the subsidiary and the parent company, how the relationship affected branding strategies used at the local market and to what extent the British subsidiary is an autonomous subsidiary that can take its own decisions. Therefore the literature regarding local adaptation and standardization of international brands was chosen.

Richard Winder was contacted again with attendant questions after the interview with Magnus Ugglå, regarding the relationship between the British subsidiary and the parent firm as well as support functions. Moreover, detailed information concerning the strategy to educate influential groups such as how the communication team works with this matter and whom the targets are was received.

The literature on internalizing of international brands was chosen after the interviews with Richard Winder and Magnus Ugglå as it contributes to the understanding of how an MNC can use corporate culture as a tool of control.

The last interview with Adrian Bennett confirmed the findings from the two previous interviews; the importance of local managers, the impact of the corporate culture and support from the national head office in London and the regional banks. Furthermore, the interview

with Adrian Bennett illustrated the branch's point of view regarding the maintenance of the brand.

The research process, where I have moved between the case and the literature, has contributed to my understanding of the research problem. During the process I was able to observe behaviors and patterns that helped me make the analysis and answer the research question. Moreover, it has been possible to compare similarities and differences between the case and the literature which I have tried to find explanations for in the analysis. The research process was at the same time a learning process.

Quality of Research

Both primary and secondary sources have been used for data collection in the case study. Three employees at different positions in the bank were interviewed in order to get different points of views from different levels in the bank, and to make sure that the same information came from more than one interviewee (cf. Ghauri, 2004; Merriam 1998). Some of the interviewees were contacted more than once, which was done to check that the information was correctly interpreted, but also to add more information since new questions arose during the research process (cf. *ibid.*). The secondary data have added facts and figures to the interviews and they have been used to check information given by the interviewees (cf. *ibid.*). Using both primary and secondary data in this way have contributed to both the validity and the reliability of this thesis (Merriam, 1998). More detailed information regarding the choice of informants is in the section Data Collection in Chapter 3.

There has been contact with the tutor on a weekly basis where the findings have been discussed in order to view the findings from more than one perspective (cf. *ibid.*). The thesis has also been subject to a thesis seminar where other students as well as the examinant have commented on the thesis. This has contributed to the validity of the thesis (cf. *ibid.*).

The access of information is due to a part-time employment for students at Handelsbanken. During the research process I have tried to put myself "outside" my role as an employee to prevent bias interpretations (cf. *ibid.*). Moreover, I have made sure that the collected information comes only from the interviewees and the secondary data. These precautions have contributed to validity and reliability of this research (cf. *ibid.*).

The research process has contributed to the reliability of this thesis (cf. *ibid.*). I worked with the case and the literature at the same time, moving between the two. The starting point was the literature but once I began interviewing personnel I realized which literature I should focus on. The research process is developed further in the section Research Process in Chapter 3.

Chapter 4 Case Study: Svenska Handelsbanken

The information in this chapter is based on the data collection described in chapter 2, which is the interviews and the secondary data.

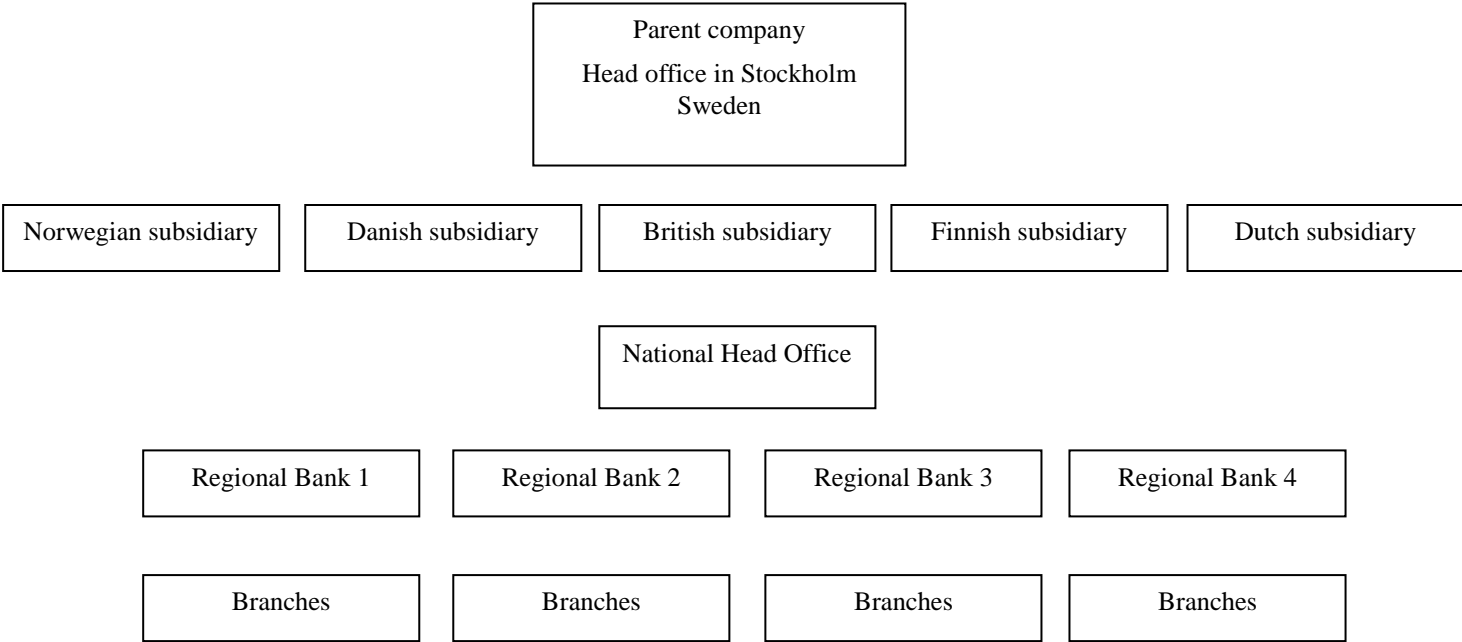
Svenska Handelsbanken

Svenska Handelsbanken is a Swedish bank founded in 1871. It is a full-service bank with a complete range of financial services for both corporate and private customers. Handelsbanken offers traditional private and corporate services such as investment banking, trading, financing, investment in equity and fixed income markets and life insurance. Since 2013 the bank has six home markets; Sweden, Norway, Denmark, Finland, the United Kingdom and the Netherlands, where the bank has nationwide branch networks. Handelsbanken distinguishes its home markets from other cross-border activities that the bank has outside Sweden. Excluding the six home markets, the bank has cross-border activities in 18 other countries. These activities are organized under Handelsbanken International. Handelsbanken International is a sub-unit in Sweden which supports representative branches in foreign markets. The reason why there are cross-border activities outside Sweden that are not organized under a home market, is because Handelsbanken has corporate customers that have business activities outside Sweden. A market becomes a home market when the cross-border activities have grown so that it is profitable to offer the full range of financial services. These activities have to be organized under a regional bank. I will use subsidiary as a synonym of home market. The parent company is the Swedish home market. The organizational structure of the parent company and the subsidiaries can be seen in figure 2. The expansion in the United Kingdom began in 1982 when the Bank followed its corporate customers to the UK. The first regional bank was established in 2002 in the UK market.

Svenska Handelsbanken has had higher profitability than average peer banks for 41 years and had been running with the most satisfied customers for 24 years according to the Swedish Quality Index. The Swedish Quality Index is an index that measures customer satisfaction. In 2012 the operating profit was 17.6 billion, and the earning per share increased with 17.04 percent (Annual Report, 2012). The period's profit increased with 18 percent in 2012 (ibid.). The equity has grown 15 percent on an average during the five past years (ibid.). The C/I-ratio was 46.3 percent (ibid.). For 2012 the long-term rating of Svenska Handelsbanken was AA- by Standard & Poor's and Fitch, Aa3 by Moody's and AA (low) by DBRS(ibid.).

The Organizational Structure of Svenska Handelsbanken

Figure 2. The Organizational Structure of Svenska Handelsbanken. Based on data collected from the interviews and my own understanding.



The Brand and Culture at Svenska Handelsbanken

Handelsbanken is a local relationship bank. They work with close relationships with their customers. The bank chooses its customers. At Handelsbanken, the customer meeting is the core of the business model. The relationships with clients are long-term relations. The idea of how Handelsbanken should run the bank is based on the trust in and respect for the individual. That is why the business model is decentralized. At Handelsbanken it is important that the customer meets the person who will make the decision. All decision-making should be taken as close to the customer as possible, which is possible due to the decentralized structure. The decision-making process is best described by the credit policy. The staff at the branch has the authority to take the credit decisions and set the price. According to Handelsbanken, the decision-making process close to the customer is the reason for satisfied customers. It is the decentralized business model that makes the integration in the local market possible. At Handelsbanken it is important that the clients feel that the bank cares for them. This is done by putting the focus on the needs of the customer. Some examples are that the bank still handles cash at the branches since this is still something that the customers demand.

Handelsbanken offers a full range of financial products and services to meet the need of the customer. Handelsbanken does not give bonuses. Therefore, there are no financial incentives for employees to sell a product that does not fit the client. The bank strives to reach profitability, not volumes. That is why there are no sale targets at Handelsbanken. Magnus Uggla explains the idea: *' We have no sale targets, we don't give bonuses, we work with long term relationships where we choose the client. We keep a high level of service. The client can call the branch directly without ending up at a call center. The branch has authority to make credit decisions and set prices. The business model of the British national banks is the opposite of ours.'*

The Heritage of Jan Wallander

Jan Wallander was the CEO of Svenska Handelsbanken between 1970 and 1978. He introduced a new way of working into the bank. Jan Wallander contributed to the decision of decentralizing the bank. It was this decision that led to the organizational structure of networks of relatively small branches, organized under a regional bank. He moved the decision-making process from the central level to the regional banks and to the branches. He strongly believed that a decision should be taken close to the customer. Jan Wallander did not like budgeting. He thought it an unnecessary evil. Instead, he decided that the bank should strive to have better profitability than the average comparable bank by having satisfied customers. This is still the objective of Handelsbanken.

The Expansion in the United Kingdom

The expansion of Svenska Handelsbanken in the United Kingdom began in 1982 when the bank followed its Nordic-related corporate businesses to the new market. The first representative branch was established in 1989 in Manchester. In 1994 Handelsbanken had established a third representative branch in Birmingham. During 1998 the bank wanted to expand in a new home market. The choice fell on the British market due to financial activities they already had in Britain. The bank wanted to expand in a market with a good judicial system since it is crucial for lending money to customers. Another obvious reason was the knowledge about the market that they already had. A first branch was opened in Nottingham as a test. It worked well and after the Nottingham branch one or two new branches were established each year until 2003. These branches were organized under the first British regional bank in 2002, the southern regional bank, which became the first head office in the UK market. The growth continued at a pace of five branches a year between 2004 and 2006. In 2007 it was decided that the rate of expansion should increase, and at the end of 2007 there were almost 50 branches in the UK market. The growth has continued, and at the end of 2012

there were 133 branches organized under four different regional banks. The UK market has since 2010 a national head office supporting the regional banks. The organizational structure of the British subsidiary can be seen in figure 2. The expansion in the UK, as well as the expansions in the Nordic countries and the Netherlands, is an organic growth; the brand is built locally from town to town. The expansion in the UK was done in the same way as the expansions in the Nordic countries and in the Netherlands. The parent company had more experience during the expansion in the UK and compared to the expansion in the Nordic countries since the first expansion of the bank was in the Nordic countries and the second expansion was in the UK.

The Recruitment Process in the UK

From the beginning in the British market the strategy has been to hire local bankers, already known and popular in the community. They were head-hunted and recruited from other banks. People did not know Handelsbanken but they were familiar with the local bank profile; to use a local profile sent a signal of trust to future customers and made them curious about Handelsbanken. Once the new branch manager was employed, he/ she was responsible for the set-up of the new branch and the building of the brand. No Swedish personnel was involved, only the local profile. The independence at the branch level is explained by Adrian Bennett: '*I've got a free hand while setting up the branch. I had to negotiate the lease, fix the furniture and computers etc.*'

The recruitment process of new managers took time. One candidate could be interviewed about six times before she was hired. The bank wanted to make sure that the right person was employed, a person who wanted to work at Handelsbanken because it is Handelsbanken. '*What we want is that our personnel wants to work for Handelsbanken because of who we are, not because of the salary, not because of a title and not because we have nice offices*', as Magnus Ugglå mentioned.

During the head-hunting process, the interviews were very informal. The representative from the bank and the candidate talked about the candidate's current job, the tasks and about frustrations that there could be with the current bank's business model, and what dissatisfaction there could be with the way of working at that bank. The candidate was educated about Svenska Handelsbanken, the business model, the culture etc. He/ She learned about Jan Wallander and his work. The candidates had to read annual reports and newspaper articles about the bank so that they could get to know the bank. Every candidate was also

strongly recommended to do a due diligence on the bank. Another important part of the recruitment process was that the candidate visited another branch to see what it is like to work at Handelsbanken. During the later interviews, the candidate had to make a presentation about what business opportunities there would be in the town and why the new branch should open in that area etc. The corporate culture of Handelsbanken permeated the interviews which was noticed by the candidate, something that was indicated by Adrian Bennett: *' My first thought was; Blimey! Here I'm sitting talking to Magnus. If I translated that back to my role at my old bank, to speak with someone like that on Magnus's level, it would have been impossible. There are probably 15 layers of managers and senior managers between me and the guy at the top. That said a lot about Handelsbanken to me. '*

The new managers at the British market were therefore already familiar with Handelsbanken before they began their employment. In fact they were more or less Handelsbankers even before they were employed. This is the reason why the parent company does not have specific demands on the subsidiary, it is the reason why a subsidiary can be autonomous and why branches can operate independently from the national head office.

Buddy Branch Strategy

During the opening process of the first branch in the UK, the branch manager got the support from the first regional bank. The second branch got support from the first branch while setting up the branch, and the third branch got its support from the previous ones. There was therefore little involvement by the British head office, and a high level of both independence and responsibility at the branch level. As suggested by Adrian Bennett: *' Head office was very helpful, because they left us alone! '*

This strategy has continued during the expansion in the UK market. The strategy is called "buddy branch" since it means that a new branch gets support from an existing branch. The new branch gets a buddy branch that they can visit; to be inspired and to learn more about the bank. A positive effect of the buddy branch concept is that it creates a supporting atmosphere between the branches, which the UK personnel is very happy about. *' Help and kindness were shown in all the other branches, it just reinforced the culture. Everyone helps everyone else so the culture just snowballs, '* said Adrian Bennett.

New branch managers spend time at the central departments of the bank. This helps the new manager to learn more about the credit policy of the bank etc. Every new employee reads Mål

och Medel, which is a thin booklet describing the bank in terms of goals and ideas, the way of working and the culture. It is used as a working tool. An employee should use it to understand what way of working is important for him/ her in his/ her role, so that he/ she can continue to be a Handelsbanker, and to be an upholder of the corporate culture and the Handelsbanken way of working. Today, new branches in the UK market are not only opened due to the head-hunting concept. Handelsbankers who have gained experience by working at one branch open new branches on their own initiatives.

The Communication of Svenska Handelsbanken in the UK

As time passed, Handelsbanken continued its organic growth using internal communication to communicate the brand, but in 2010 they reached a breakpoint at the national level in the UK market. Handelsbanken does not have marketing campaigns at the national level, nor at the local level. In 2010, it was no longer sufficient with only internal communication channels of the brand, the bank needed to reach out to external interest groups. Externally, interest groups such as the media, politicians and potential customers had got the wrong idea of what Svenska Handelsbanken was. Handelsbanken UK was in the need of a common communication team at a national level. In 2010 a communication team was established at the national head office. Some external descriptions of Svenska Handelsbanken were that the bank was a German bank, others that it was a business bank. The external descriptions could be incorrect, incomplete or misleading. Handelsbanken noticed that dangerous conclusions were made based on partial pictures of the bank. As pointed out by Richard Winder: *'It was suggested that it could be risky for British people to bank with us, because we are not a UK regulated bank nor a UK based bank.'*

Handelsbanken also began to draw criticism for not being a transparent bank concerning its pricing regarding accounts, loans etc. Individual pricing from one client and one branch was sometimes published in the national media as national price indicators. Since Handelsbanken works giving individual pricing to each client, there are no price lists to be published for national marketing. The criticism was therefore a threat to the brand. The communication team decided that they had to educate external interest groups about Svenska Handelsbanken. The communication team began to work with brand salience, which still is one of their main tasks. This is a strategy where they focus on certain key points while educating external interest groups about the bank. The communication team in the UK puts the focus on a map of certain influential organizations and individuals such as policy-makers and politicians, media and business groups. Handelsbanken pays attention to the influential groups on a regular

basis, by looking for non- pressure opportunities where the subject can pay his/her full attention to Handelsbanken, listening to the full story. This limits the risk that the subject will look for certain aspects of the bank rather than the full narrative due to lack of time.

The interest groups should have a genuine interest in learning about Handelsbanken. By kindling the subject's initial interest through an understanding of its own agenda, the communication team is able to highlight more areas of interest. Handelsbanken only attends settings where Handelsbanken can get full attention e.g. where the bank can be target of a case study or an example. As suggested by Richard Winder: '*We avoid appearing on a conference agenda just to give our views on industry issues and raise our profile, since this does not help our audience to understand the bank itself.*'

In the UK, Handelsbanken makes the introduction through trusted advocates to reach new people on the map. One example is from 2012, where the communication team attended a breakfast briefing in the British Parliament for a group of Members of Parliament (MPs) who were influential on banking issues in the UK. This event was sponsored by a Member of Parliament who was an advocate of Handelsbanken.

Since banking reforms and competition are among the biggest issues on the UK political agenda, it is important to meet with policy- makers. Representatives of Handelsbanken see Government Departments and Senior Policy Advisers such as Her Majesty's Treasury and the Department for Business. They also get together with the Parliamentary Commission on Banking Standards, the Treasury Select Committee and all Party Parliamentary groups of the MPs on Banking, Finance and Economy.

At the national level, representatives of Handelsbanken meet journalists from newspapers such as the Financial Times, the Times and the Daily Telegraph and business magazines such as the Spectator and the Economist. These journalists are experienced and thoughtful when writing about banking, and the articles are read by many of the influencers that the bank wants to educate.

The business groups attended by Handelsbanken are go-to commentators in the British business circle e.g. the Confederation of British Industry, the Federation of Small Businesses and the Institute of Directors. '*Journalists call on them for views. Policy- makers seek their*

opinion on how the banking market looks to UK businesses and the businesses themselves contact them for advice on banking issues,' said Richard Winder.

Since influential groups are networking and both correct and incorrect views of the bank travel among different groups, it is important to educate so only the correct story will be filtered through these groups of interest. The key messages that Handelsbanken currently communicate are that Handelsbanken is a local relationship bank, a solid bank based on traditional values. Svenska Handelsbanken has a good financial structure. It works with close relationships with its customers. The bank is based on traditional values that are neither modern nor futuristic nor out of date. The values are simply timeless. These values are based on relationship, trust and people.

The central communication team at the national British head office is also a support function for the British regional banks, as well for the branches. Since the bank works with a decentralized model and local integration, it is not only the communication team that is in contact with the media. The branches are also in contact with the press but at the local level. The communication team provides the branches with up-to-date key messages, helping them to tell the story of Handelsbanken but in their own way. The key message is divided into information about characteristics of Handelsbanken and differences in the business model compared to other banks. These messages are backed up by concrete proof points. This helps the branch to focus on points that matter to the external audience.

Each branch has its own webpage. The communication team at head office provides the branches with a range of webpage modules to choose from. The messages on the different branches' webpages are the same in terms of financial strength, customer focus, local relationship banking etc, but there is always a local feeling to each webpage. The key messages of Handelsbanken are also reflected in all of the template marketing material. It concerns material used for customers, professionals and prospects. This is material used at the first introduction about Handelsbanken, products and services brochures, leaflets, posters, event display stands etc. This material is produced at the national head office but each branch can add its local touch to it. The central communication team provides the branches with communication guidelines and communication instructions to use for external purposes. These guidelines regard what tone of voice to use, positioning, appropriate content etc. to maintain effective relationship with the local media.

The communication team at head office helps the branches to identify communication needs which tend to be similar among the branches. The communication team attends meetings with representatives from the regional banks, where they talk about suitable tools needed by the branches. Sometimes representatives from the branches attend these meetings. The regional banks are in contact with the branches on a daily basis to help communicate the needs of the branches to the central communication team. The internal communication is still a powerful tool used by Handelsbanken as explained by Richard Winder: *' The intranet and internal magazine and publications have a drip-drip effect on individuals' own way of talking about the bank, both internally and externally, hence we are just as keen, if not keener, to get the messages right with our own staff as with the outside world.'*

The staff at the local branch also has an important responsibility to help building the brand. The branch helps spreading the Handelsbanken story at the local level by visiting and talking to professionals such as local accountancies, solicitors, valuers etc. Attending social events such as lunch meetings, arranging local pub buffets and golf events etc. is something the branches use to spread the word about Handelsbanken. Events like these are appreciated by customers, as well as potential customers. Traditional British banks do not engage in such events. Therefore the Handelsbanken story, as well as knowledge of the brand are spread in the local market by word of mouth, bringing new clients into the bank.

The expansion of the brand Svenska Handelsbanken in the British market has not been achieved without the strong business culture and the fit between the organizational structure and the way of working. It is the corporate culture that helps to control and maintain the value of the brand. Another factor that has played an important role during the expansion is the fact that Svenska Handelsbanken has a different business model compared with the traditional British banks. In general, the British banks are hierarchical with many layers of managers and senior managers. The organizations are more centralized where the decision-making is further away from the customers, e.g. the branches are sales units. To get a credit decision the client has to call a central unit to get the credit decision. The traditional British bank uses strict sale targets. At Handelsbanken, strong local relationships, where the client can meet the decision maker at the branch has been a demand from the British banking market. The trust in people, the ability to take own initiatives and being able to help clients on a local level has also been a demand on the banking labor market. The British people were fed up with British banks. As pointed out by Magnus Ugglä: *' It is no rocket science. We are simply what banking used to be twenty years ago in Great Britain. We are very different but in a well-known way. '*

Chapter 5 Analysis

In this chapter I will discuss my research question. The research question in this thesis is "How are control mechanisms of the parent firm used to protect an international brand in the subsidiary's local market?" The structure of the analysis is divided into three main sections: Independent Subsidiary; One Brand, Control Mechanisms and The Expansion of the Brand in the UK. I used this structure to illustrate my learning process. In the first section, I discuss the independent subsidiary and how the bank works with core values to preserve one brand. The second section consider control mechanisms that have been used by the parent company to control, hence protect the brand. In the third section I analyze external precautions that are direct response to experienced threat and were taken to maintain the same brand in the subsidiary's market.

Independent Subsidiary; One Brand

Operationally, the British subsidiary is independent from the parent company in terms of the national level (national head office), the regional level (regional banks) and on the local level (the branch network). The branch managers are given a high degree of freedom to run the branch and adjust to the local market (cf. Solberg, 2000). The branch manager is responsible for the set-up of the branch, the opening, and to build a relationship with customers and influential groups in the community. There is little interference from the British head office at the local level (cf. Solberg, 2000). There are lateral relationships between the branches instead (cf. Martinez and Jarillo, 1991). The purpose of the regional banks are to support the branches, and the purpose of the national head office is to support the regional banks and the branches.

The high level of independence experienced by the British subsidiary from the parent company, and the independence experienced by the branches from the national level can be explained by the business model and the philosophy of Handelsbanken. The philosophy of Handelsbanken is that the customer should be central and that the decision- making should be as close as possible to the customers in order to offer good service. Therefore, Handelsbanken is a local relationship bank. The philosophy is reflected in the decentralized business model. To be able to have a close relationship with customers at the branch level, the branch needs independence from both the national level and the parent company. The British subsidiary has to be able to operate independently, otherwise the business model would not function and it would be very difficult to be a local relationship bank. Therefore, it is a fit between the strategy and the structure (cf. Martinez and Jarillo, 1989). Being a local relationship bank and

operating with a decentralized business model are parts of the administrative heritage (cf. Ghoshal and Bartlett, 1998).

Even though the branches have a high level of independence regarding the operational work, certain precautions are made to maintain the same brand in the subsidiary's market. The national head office supports the branch level with guidelines controlling the communication of the brand (cf. Solberg, 2000). These communication guidelines concern key messages of the brand, guidelines regarding the webpage designs and marketing materials such as brochures, leaflets, posters etc. The intranet is also a source that is used to spread the brand values inside the organization. The national head office works to maintain the essence of the brand; only a few adaptations to the local market are allowed e.g. the layout of the webpage, but the main message is always the same (cf de Chernatony et al., 1995; Lannon, 1991).

In the literature, it is suggested that an international brand should be built on core values and that it is the execution of the brand that should be adapted to the local market (cf. de Chernatony et al., 1995; Lannon, 1991). For Handelsbanken, it has been important to maintain the same brand in all markets which could be considered difficult since the bank is a local relationship bank and each branch integrates with the community (cf. Solberg, 2000). To maintain the same brand at all markets, Handelsbanken uses core values. As stated above, common communication strategies are used in the British market to prevent different versions of the brand. Each branch has the possibility, and it is even encouraged to adapt its communication to the local market, but it is the execution of the brand that is adapted e.g. the branch bank office and marketing material for the local market, not the brand itself. It is important to understand that the small adjustment of the execution is not the same thing as adapting the brand. The core value of the brand is always the same for Handelsbanken. Moreover, it is important to stress that this adaptation is due to the business model and business strategy. Handelsbanken operates with local relationships with its customers. To reach out to the clients in a suitable way, each branch has to adapt the execution of the communication of the brand. Otherwise, it would be difficult to be a local relationship bank if there were no adaptation. Therefore, the administrative heritage (cf. Ghoshal and Bartlett, 1998) is another important factor contributing to the maintenance of the brand during the internationalization of Handelsbanken.

According to Ghantous (2008), banking is a type of service that has a high level of global vocation but a low level of global demand homogeneity. Such types of services or products

should standardize its brand execution and adapt its brand essence (ibid.). Looking at Handelsbanken, the strategy of the bank is the opposite of that Ghantous (2008) suggests for banking in his matrix. Handelsbanken standardizes its core values and adapts its brand execution which is in line with the glocal brand strategy of the matrix. Services or products belonging to the glocal brand have a high level of global demand homogeneity and a low level of global vocation. This is an interesting observation since the philosophy of Handelsbanken is that each client has individual needs. Therefore, the bank should put the client in the centre. The philosophy of Handelsbanken is an example of customization that characterizes information-intensive soft services (cf. Ball et al., 2008; Venzin et al., 2008). From this point of view, it is reasonable to suggest that Handelsbanken offers services that have a low level of global demand homogeneity, not a high level of global demand homogeneity (cf. Ghantous, 2008). According to the literature, banking has a low level of global demand homogeneity (Ghantous, 2008). Considering customization, information-intensive soft services transform input information into output information that suits the need of a client (Ball et al., 2008). Such services do not have global vocation, nor global demand homogeneity. Therefore, soft service firms should belong to the category of regional brand. Regional brands should adapt both the brand essence and the brand execution (Ghantous, 2008), but Handelsbanken only adapts its brand execution. A reasonable explanation seems to be the intangibility of soft services (cf. Erramilli, 1990; Zeithaml et al., 1985), it is essential with a strong brand that can embody the brand and contribute to brand understanding (cf. Berry, 2000). In order to create something tangible out of something that is intangible by nature, core values seem to be a key factor. By constantly using the same core values of the brand, the right symbolic meaning of the brand will eventually be formed, understood and maintained.

For soft service firms, the characteristics of intangibility and customization seem to be a better basis to start from compared with Ghantous's (2008) matrix concerning the brand strategy during internationalization. A strong and plain brand is required for soft service firms due to the feature of intangibility and the core values are the proper tools to create a strong and plain brand. Soft service firms, mainly information-intensive soft service firms, depend on customization (cf. Ball et al., 2008). Such a service firm needs to adapt its brand execution to attract customers. Soft service firms should take the degree of intangibility and customization into consideration while developing branding strategies to use during internationalization. For soft service firms, branding strategies are a matter of a continuum of options regarding core

values and brand execution (cf. Buzzell, 1968). The continuum of options should be considered for the variables intangibility and customization as described in figure 3 below.

Figure 3. The Soft Service Brand Strategy Model for Internationalization

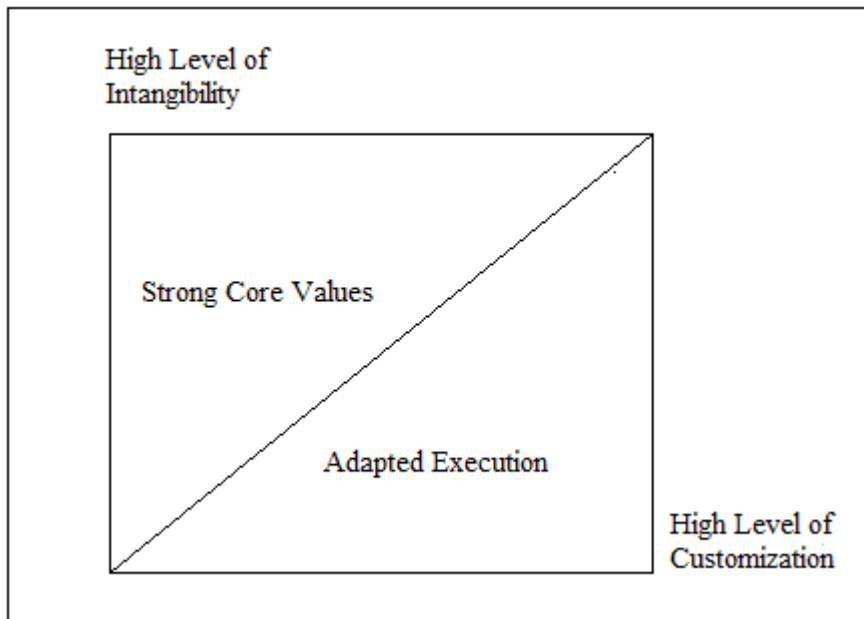


Figure 3 shows that customization requires adapted execution and that intangibility requires strong core values. Depending on the degree of intangibility and customization, different levels of adaptation of the brand execution and core values are required during the internationalization process but the core values should always be strong. Despite the fact that the characteristics of intangibility and customization can explain why Handelsbanken uses strong core values and only adapt the execution of the brand, it is however important to remember that the administrative heritage (cf. Ghoshal and Bartlett, 1998) affects the brand and how Handelsbanken works to maintain the brand in a new market. As discussed above, it is the philosophy of being a local relationship bank that creates the need of customization, hence the need to adapt the execution of the brand.

Even though a subsidiary operates independently, it is important for the parent company to maintain one brand. For a soft service firm, the core values are essential to succeed with the maintenance of one brand in different markets (cf. de Chernatony et al., 1995; Lannon, 1991). Despite the fact that the core values play a crucial role in the maintenance of the brand Handelsbanken, the core values were not the only successful factor to preserve the brand. To maintain one brand, and in order to be able to work with core values in an independent subsidiary, Handelsbanken uses control mechanisms to amplify the core values and brand

understanding within the organization in the local market. These mechanisms will be discussed in the next section.

Control Mechanisms

Despite the fact that the British subsidiary shows a high level of independence, it is controlled by the parent company (cf. Solberg, 2000). Lateral relations and corporate culture are used as control mechanisms inside the organization (cf. Martinez and Jarillo, 1991). In the case of Handelsbanken, the control mechanisms are used to protect the brand and contribute to spread one message of the core values. In the British market, the buddy branch concept is an example of lateral relations (cf. Martinez and Jarillo, 1991). These relations emerged due to the fact that little support was given from regional banks and national head office, nor from the parent company, during the set ups of the branches. Instead, the branches support one and other which contributes to an independent subsidiary (cf. Solberg, 2000) and strengthens the corporate culture in the British market. This is in line with the decentralized structure of Handelsbanken (cf. Ghoshal and Bartlett, 1998).

Cf. Solberg (2000) suggested that an esprit de corps can be used to make sure that the same marketing strategies are used in all markets for a manufacturing firm. The corporate culture is very strong in Handelsbanken, and it is strongly reinforced into the organization in the British market e.g. by the use of Mål och Medel and the heritage of Jan Wallander. Documents that help substantiate the brand, such as Mål och Medel, and using the heritage of a strong leader that has a symbolic meaning for an organization and its culture, such as Jan Wallander, are tools to understand and conceptualize the brand (cf. Tarnovskaya de Chernatony, 2011). Cf. Tarnovskaya de Chernatony (2011), corporate culture can be used to control a brand in a new market since the culture will help the employees to understand the ideas of the brand and protect the brand. The understanding of the brand is important for a soft service firms since a service is characterized by intangibility by nature (cf. Berry, 2000; Erramilli, 1990; Zeithmal et al., 1985). In the case of Handelsbanken, the corporate culture was pointed out as the key factor in maintaining the brand. From the parent firm's perspective, there is no need to control the subsidiary since the culture does it. The brand Svenska Handelsbanken was understood and it came alive in the local market by internalizing it with the help of corporate culture (cf. Tarnovskaya and de Chernatony, 2011). Therefore, this case study indicates that corporate culture is a useful tool to help the employees to understand the brand and the intangible features of the soft service (cf. Berry, 2000; Zeithmal et al., 1985). When people within the organization understand the brand, they can contribute to maintain it in the new market.

For Handelsbanken, there is an obvious reason why corporate culture is an effective tool of control to maintain the brand in the subsidiary's market; the choice of control mechanisms fits with the strategy and structure of Handelsbanken (cf. Martinez and Jarillo, 1989; Martinez and Jarillo, 1991), hence it is part of the administrative heritage (cf. Ghoshal and Bartlett, 1998). An autonomous subsidiary is best controlled with informal control mechanisms (cf. Martinez and Jarillo, 1991). Handelsbanken has a decentralized structure, independent subsidiaries and a philosophy and goal to be the best local bank in the community. An effective corporate culture lives inside the minds of the employees (cf. Tarnovskaya and de Chernatony, 2011). Since the employees are educated about Handelsbanken before they were hired, the culture is strong from the beginning. Once the culture is firmly and deeply rooted (cf. Tarnovskaya and de Chernatony, 2011), it embodies the brand and creates a symbolic meaning and without realizing it, the employees behave according to the norms of the culture, embodying the brand and send the signals of the brand to themselves and their surroundings (cf. Berry, 2000; Schein, 2004). Therefore, the corporate culture contributes to stability of the understanding of the brand that will help maintaining it (cf. Schein, 2004).

The head-hunting process of local managers was another important strategy to control the brand in the UK (cf. Fayol-Song, 2011). These managers are educated about Handelsbanken in order to be strong upholders of the culture even before their employment. As pointed out by Tarnovskaya de Chernatony (2011), the brand can be activated in the local market by educating employees about the brand and contribute to their brand understanding. Therefore, the recruitment process itself was an important step to reinforce the "correct" culture into the subsidiary by Handelsbanken. Since the corporate culture was reinforced at an early stage, the subsidiary can also operate in an independent way that suits the business model. The recruitment process is a strategy for the parent company to make sure that the new branch managers will work in the same way as the parent company wants them to and too make sure that the right person is hired. This is possible due to the use of corporate culture.

Expatriates were not used during the expansion in the UK. In general, expatriates are used since they are upholders of the culture (Hill 2011; Martinez and Jarillo, 1989). Instead of using expatriates to help implementing the corporate culture, Handelsbanken educated local managers about Handelsbanken which indicates that both expatriates and management localization can be used to reinforce a corporate culture (cf. Hill 2011; Martinez and Jarillo, 1989).

The recruitment process was time consuming. For an outside observer, it might seem more convenient to use expatriates than local managers since there would be no trouble educating expatriates about the bank and its culture (cf Hill 2011; Martinez and Jarillo, 1989). In the literature, one of the advantages with management localization, compared with expatriates, is that local managers contribute with in-depth knowledge about the local market (Fayol-Song, 2011). Since Handelsbanken is a local relationship bank the knowledge about the local market is one reason to choose management localization over expatriates. Therefore, one of the explanations to the staffing strategy is the administrative heritage (cf. Ghoshal and Bartlett, 1998).

Another important factor to choose local managers instead of expatriates, is that the person that was hired felt chosen and could see that Handelsbanken invested time in him/ her (cf. Fayol-Song, 2011). This made the person feel that he/ she was unique and valuable (c. Fayol-Song, 2011). The way of hiring sends signals to the customers as well. There had to be something special about Handelsbanken since well-known bank officials changed employer. Therefore, the local manager that was chosen becomes a symbol for the service firm and fuels the bank's reputation and recognition (cf. Couvelare and Richelieu, 2005). Therefore, during the internationalization process of a soft service brand, one can argue that management localization is preferable over expatriates since the use of local profiles will send a stronger message in the new market. Furthermore, this message agrees with the features of services that are important for service brands that will be developed below.

Soft services firms, such as Handelsbanken, are characterized by intangibility and inseparability (cf. Erramilli, 1990; Ball et al., 2008; Venzin et al., 2008). These characteristics help us understand the importance of the service brand. Berry (2000) claims that the organization itself is the service brand. Papasolomou and Vrontis (2006) state that for financial services, the people within the organization contribute to the formation of the service brand. The recruitment process at the British market indicates that the choice of personnel matters for the maintenance of the brand. A bank official that already has a positive reputation on the local market and has experience about that market will contribute to the brand. Service firms are dependent on their brand reputation and their brand credibility (Baek and King, 2011; Richelieu et al., 2008). By choosing management localization over expatriates, Handelsbanken was able to strengthen the reputation of its brand by using the tool of corporate culture explained above. Evidently, corporate culture could have been used as a tool

to protect the brand if Handelsbanken had hired expatriates (cf. Martinez and Jarillo, 1989), but local bank officials seem to be more importance for the reputation and credibility, since brand credibility and brand reputation affect the perception of a brand (cf. Baek and King, 2011). Brand credibility is associated with quality and less risk-taking (Baek and King, 2011). Brand credibility has the power to contribute to loyal clients (ibid.). When the local profile was hired he/she became a living symbol for the new financial brand, signaling credibility to the local market since he/she would embody the intangible characteristic of the brand. Due to the staffing strategy Handelsbanken managed to clarify its intangible characteristics of the brand. The strategy was possible due to the fact they used corporate culture and lateral relations as a tool of control.

The Expansion of the Brand in the UK

In the British market, the process of protecting the brand has developed during the expansion, an can be divided into two phases. The first phase regards the work with core values, staffing strategy and internalizing the corporate culture as explained in the previous sections of this chapter. The second phase concerns the strategy of educating influential groups about Handelsbanken. This is a precaution that the national head office in the British market has decided to use. The strategy of educating influential groups about Handelsbanken was a reactive decision due to the experience of a threat. The brand was interpreted incorrectly and was not understood in the British market. The incorrect interpretation and the poor understanding of the brand were dangerous for the operations in the UK since there were suggestions that it could be harmful for British customers to bank with Handelsbanken. The communication team at head office decided to educate influential groups about Handelsbanken to reach out with the right story in order to protect the brand in the new market.

Handelsbanken does not use traditional marketing campaigns e.g. advertising. Tarnovskaya and de Chernatony (2011) suggested that the internalizing of the brand would have spill-over effects on the external environment in the local market. That is, the brand will be externalized during the buyer-seller interaction since the employees are upholders of the soft service brand (cf. Papasolomou and Vrontis, 2006; Tarnovskaya and de Chernatony, 2011; Venzin et al., 2008). In the beginning of the expansion, the parent company thought that the strong corporate culture, choosing the right personnel and using core values would be enough to protect the brand but it turned out to be wrong. The case of Handelsbanken indicates that the buyer-seller interaction was not enough to spread the right message of a soft service brand to

the external environment despite the strong corporate culture and internal brand understanding. One reason could be the fact that the Handelsbanken does not use marketing campaigns. The bank does not use marketing campaigns since it does not suit their business model and business strategy where the bank chooses the customer and gives individual pricing. This suggests that an international business that does not use marketing campaigns has to find an alternative communication channel to protect the brand externally (cf. Solberg, 2000). For Handelsbanken the alternative channel of communication is the strategy of educating influential groups.

Furthermore, the strategy of educating influential groups can be explained by the importance of brand reputation and brand credibility discussed earlier in this chapter (cf. Baek and King, 2011; Richelieu et al., 2008). Soft service brands need strong core values due to the characteristic of intangibility since the image of the brand affects the reputation and credibility (cf. Baek and King, 2011; Ball et al., 2008; Erramilli, 1990; Richelieu et al., 2008; Venzin et al., 2008). As for Handelsbanken, the wrong image harmed the reputation and credibility and the bank was associated with risk (cf. Baek and King, 2011). When an international business does not use marketing campaigns, such as Handelsbanken, the importance of strong core values increases (cf. de Chernatony et al., 1995; Lannon, 1991). Not only are the core values crucial to spread the correct brand understanding within the organization, they are also important while building the right image externally (cf. Berry, 2000). The British communication team carefully chooses key messages that are used during the education of external interest groups, a similar strategy to the guidelines given to the branches, indicating the importance of one brand. Since soft services, such as banking, are characterized by intangibility (cf. Ball et al., 2008; Venzin et al., 2008) and service firms can rely on its brand in order to help the customers to understand the intangibility of services (Berry, 2000), core values are as important to protect the brand externally as well as internally.

The two phases experienced by Handelsbanken during the internationalization of the brand in the British market are equally important to protect the brand in the new market. Regardless the strong effort to control the brand from the inside of the organization, Handelsbanken had to take external precautions to protect the brand. For a soft service firm, core values are crucial to reach a successful outcome of the external communication due to the intangible feature of soft services. Internal precautions are not sufficient to protect a soft service brand. An

international firm that does not uses traditional marketing campaigns, can educate influential groups in the new market as an alternative channel of external communication.

Chapter 6 Conclusion

Findings

The research question in the thesis is *"how are control mechanisms of the parent firm used to protect an international brand in the subsidiary's local market?"*

A parent firm that has independent subsidiaries in foreign markets can protect the brand by building the brand on strong core values and controlling its subsidiaries by using a strong corporate culture and management localization.

International soft service firms, as well as international manufacturing firms, should use core values to protect the brand and adapt the execution of the brand in the new market. Since soft services are characterized by intangibility, strong core values contribute to brand understanding and help embodying the brand. Moreover, soft services are dependent on customization, therefore the execution of the brand should be adapted to the local market.

To successfully maintain the brand in the new market, a soft service firm should use a strong corporate culture to contribute to brand understanding and to build the brand inside the subsidiary. The corporate culture should be implemented at an early stage of the internationalization of the brand. For a soft service firm, management localization is preferable over hiring expatriates since the local profile will send a stronger message in the new market regarding the brand. Moreover, management localization is useful to maintain the brand in the new market if the parent firm use corporate culture and implement the corporate culture at an early stage.

Internal precautions are powerful in protecting a soft service brand in a new market but external precautions are equally important to maintain the brand. A good brand understanding inside the subsidiary is not enough to protect the brand in the new market if clients and non-clients get the wrong interpretation of the soft service brand. In contrast to traditional marketing campaigns, educating influential groups can be an alternative external precaution to protect a soft service brand in the new market.

Contributions of the Thesis and Future Research

The literature on international soft service brands is limited. The exciting literature regarding international brands is relatively limited to the manufacturing industry, even though the brand

is considered more important for services than for goods (Papasolomou and Vrontis 2006). The prevailing literature on international brands indicates that the core values of the brand are to be standardized and the execution of the brand is to be adjusted to the local market (cf. de Chernatony et al., 1995; Lannon, 1991). Moreover, the relationship between the parent firm and the subsidiary affects the marketing strategy (cf. Solberg, 2000). The findings of this thesis show how a soft service firm can use core values of the brand, a strong corporate culture, hiring local managers and educating influential groups in the local market about the brand in order to protect the brand in the new market. The educating strategy is an alternative to marketing campaigns. The findings of the thesis have emphasized that soft services are characterized by intangibility and customization. When working with the core values of a soft service brand and the degree of adaptation of the brand execution, intangibility and customization seem to be more coherent variables than global vocation and global demand homogeneity. Soft service firms as well as manufacturing firms should work with core values and brand execution during the internationalization of the brand. For soft service firms as well as for manufacturing firms corporate culture is a useful tool to protect the brand.

To gain universality of the contribution of this study, more studies should be made concerning the banking industry as well as other soft service industries (cf. Merriam, 1998), since the administrative heritage of Handelsbanken played a crucial role for the choice of adapting the brand execution, using corporate culture, the choice of management localization and educating influential groups as tools to protect the brand (cf. Ghoshal and Bartlett, 1998). Moreover, more studies should be made since intangibility and customization seem to be coherent variables when deciding as to what degree the brand execution should be adapted to the local market since prevailing literature suggests that global vocation and global demand homogeneity of a product or a service are the appropriate variables.

Recommendations to Managers

Regardless of sector, managers facing internationalization of a soft service brand should use corporate culture to control the image of the brand in the new market, since corporate culture helps the personnel to gain brand understanding and embody the brand in the new market.

No matter their administrative heritage, soft service firms should standardize their core values in all markets to maintain the brand, since one common message is needed to embody the right image of the brand in all markets.

Managers of soft service firms need to be extremely careful when hiring personnel to work in the new market. Since the employees help to embody a soft service brand, it is crucial to employ the right personnel who share the core values of the company and sympathize with the soft service firm's "way of working".

Appendix 1 Interview guide with Richard Winder

This is the interview guide explaining the topics discussed during the telephone interview with Richard Winder

Opening question;

How has Handelsbanken thought about the branding strategy, from the beginning of the home market in UK, till today? How did you do?

Topics

- Communication
- Communication tools
- The communication team at the head office
- Communication channels- *Regional banks and the branches*
- Internal communication
- Key message of the bank and the brand- *how the bank wants to be perceived both internally and externally*
- Education activities
- Influential groups
- Corporate culture
- Organizational structure- *the decentralized structure of the bank*
- Ownership structure
- Relationship between the parent company and the subsidiary
- Adaptation/ Standardization of the brand
- Support
- Future plans

Appendix 2 Interview guide with Magnus Uggla

This is the interview guide explaining the topics discussed during the telephone interview with Magnus Uggla

Opening question;

How has Handelsbanken thought about the branding strategy, from the beginning of the home market in UK, till today? How did you do?

Topics

- Relationship between the parent company and the subsidiary
- Way of working with branding during an expansion to a new market
- Adaptation/ Standardization of the brand
- Recruitment process
- Suitable employees
- Control mechanisms
- Support

Appendix 3 Interview guide with Adrian Bennett

This is the interview guide explaining the topics discussed during the telephone interview with Adrian Bennett

Opening question;

How have you worked at your branch to build the brand Svenska Handelsbanken?

How did you do, and how did you think in order to spread the story of Handelsbanken in your geographical area?

Topics

- Relationship between the branch and national head office
- Communication
- External education activities at the local level
- Influential groups
- Corporate culture
- Recruitment process
- Support

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