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DIGITAL TRANSFORMATION FACTORS IN RUSSIAN SUBSIDIARIES OF  
MULTINATIONAL COMPANIES

Master's Thesis by the 2<sup>nd</sup> year student  
Concentration — Master in Management  
Daniil Terentev

Research advisor:  
Associate Professor,  
Andrey V. Zyatchin

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ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ  
ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЫ

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## ABSTRACT

Master Student's Name	Daniil Terentev
Master Thesis Title	Digital transformation factors in russian subsidiaries of multinational companies
Educational Program	Master in Management
Main field of study	Management
Year	2021
Academic Advisor's Name	Andrey V. Zyatchin, Candidate of Physics and Mathematics
Description of the goal, tasks and main results	The main purpose of this master's thesis is to study the digital transformation in the Russian subsidiaries of multinational companies (MNC) and identify the main factors that determine the logic behind the processes of digital transformation in the Russian subsidiaries. Based on the current academic literature review on this topic the required research gap was determined. The practical study is based on 12 interviews with managers and consultants working on digital transformation projects of Russian subsidiaries of multinational companies. The main results of the study show the current business environment of the Russian subsidiary in the period of digital transformation and highlight the main factors of adaptation of digital transformation in Russia.
Keywords	Digital transformation, subsidiary, multinational company, strategy adoption, Russia

## АННОТАЦИЯ

Master Student's Name	Даниил Александрович Терентьев
Master Thesis Title	Факторы цифровой трансформации в дочерних компаниях международных компаний в России
Educational Program	Master in Management
Main field of study	Менеджмент
Year	2021
Academic Advisor's Name	Зятчин Андрей Васильевич, кандидат физико-математических наук
Description of the goal, tasks and main results	Главной целью данной магистерской диссертации является исследование цифровой трансформации в российских дочерних компаниях международных компаний (МНК) и выделение основных факторов, которые определяют логику, стоящую за процессами цифровой трансформации в российской дочерней компании МНК. На основе текущей академической литературы по данной теме была определена необходимая область изучения. Практическое исследование основано на 12 интервью, полученных у менеджеров и консультантов, работающих на проектах цифровой трансформации российских дочерних компаний международных компаний. Основные результаты исследования показывают текущее бизнес окружение российской дочерней компании в период цифровой трансформации и выделяют основные факторы адаптации цифровой трансформации в России.
Keywords	Цифровая трансформация, дочерняя компания, международная компания, адаптация стратегии, Россия

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# 1. INTRODUCTION

## 1.1.Relevance of the study.

At the moment, the business world is digital. Or becomes so. Faced with the need to be flexible to change and meet rapidly changing trends in consumption, companies are pursuing strategic digital transformation initiatives. From the McKinsey study (McKinsey, 2020), about 80% of companies have started digital transformation in the last 5 years. However, the transformation process is not easy. Only 30% of companies have successfully carried out digital transformation, and companies with more than 50,000 employees are 3 times less. This means that companies are experiencing serious difficulties but the benefits of implementing digital transformation strategies significantly exceed all the obstacles to the transformation of the organization. (de la Boutetière, Montagner, 2018)

Digital transformation as a phenomenon in various aspects began to be studied almost immediately after the beginning of a broad process of digital technology implementation. We can conclude that the topic of digital transformation is already well studied.( Talafidaryani, 2021) The stages that an organization must go through in order to embark on the path of digital transformation are well described. Also, a lot of academic literature is devoted to creating a digital environment necessary for the synergistic work of business and digital tools. The large share of attention was focused on technological issues and discussion of the effects of implementation from them. The standardization aspect is often one of the main areas necessary for an effective digitalization strategy.

However, a third of companies faced problems of organizational unpreparedness for digital transformation. This has particularly affected companies with strict hierarchies and well-established processes, such as multinational corporations. And from the literature review, it is noticeable that the research on digital transformation within a scope of MNC hierarchy is limited. At the same time, MNC's relations with its subsidiaries are quite a complex mechanism in themselves. Similar relationships have been studied before. But from these studies, we can conclude that regional specificity is a serious factor in these relations. At the same time, MNC's relations with its Russian subsidiaries have been studied only in a limited way. This is especially true for the study of relatively new process of digital transformation.

The main goal of the study is to study the features of digital transformation in the Russian subsidiaries of MNC, to understand what influences and what actions ensure the implementation of digital transformation.

As for the object of the study this thesis presents a study of MNC companies listed in the Forbes Global 2000 that have headquarter geographically based outside the Russian Federation

with large subsidiary in Russian Federation upon Russian jurisdiction without limitations of organizational form.

In order to focus on the selected issues, the following research questions were formulated:

**RQ1** What is the global Digital Transformation process in the Russian subsidiaries prospective?

**RQ2** What are the Russian subsidiaries' positions in the hierarchy of the global MNC digital transformation process?

**RQ3** What is Russian market peculiarities in the scope of the global MNC digital transformation process?

**RQ4** What managerial practices of Russian subsidiaries are important in the adoption of the strategic digital transformation initiatives?

This work follows the following structure consisting of 4 parts. The Chapter 1 reviews the literature on digital transformation, the relationships within MNC between headquarters and subsidiaries, and the existing practices on digital transformation processes in subsidiaries. The Chapter 2 shows the research methodology: research methods, data analysis techniques, and interview design. The Chapter 3 shows the findings made during the study. The Chapter 4 summarizes the results, shows the implications and possible future directions of research.



## **2. CHAPTER 1. Theoretical background**

### **2.1.Literature review**

In this chapter, we will conduct the literature review on the topic of digital information in Russian subsidiaries of multinational companies. Based on the work of previous scholars, digital transformation as a managerial phenomenon will be reviewed. Basic definitions and concepts will be introduced. One of the main goals of the chapter is the formation of a research gap that will show the need for research and the creation of a research framework that will become the basis for practical research.

#### **2.1.1. Basic concept and definition. Definition of digital transformation.**

This thesis focuses on the process of digital transformation in subsidiaries of multinational companies in Russia. Thus, the main burden lies on determining the process of digital transformation and the multinational company as the object of research.

A multinational company (MNC) is a company that owns and/or is involved in value-added activities in several foreign countries and / or is involved in foreign direct investment. Activities in foreign countries may be subsidiaries that are wholly owned or mostly owned by the parent MNC or joint ventures with other companies where MNC owns part of the capital. The forms of subsidiaries can be completely different. This includes both the size of subsidiaries and legal forms of organization depending on local regulations, and so on. At the moment, subsidiaries can interact quite independently with local companies of the 3rd party-contractors, etc. Nevertheless, MNC headquarters is still involved in many of the processes of its subsidiary networks.

The topic of digital transformation has been widely discussed in recent years, both in the academic environment and from the practical point of view of companies. But rapidly evolving technological environment there is still no universally accepted definition of this process. In this thesis we will rely on the following definition of digital transformation:

*The digital transformation includes the networking of actors such as businesses and customers across all value-added chain segments, and the application of new technologies (D. Schallmo, C. A. Williams & L. Boardman, 2018)*

Started in the late-90s the concept of digital transformation started to grow rapidly among the all the industries. Digital transformation becomes a survival factor for companies when digital products become widely distributed. Companies have become forced to use technology as a response to an accelerating environment with the need to change quickly and adapt to new customer and market needs.(Verhoef, Broekhuizen, Bart, 2019) And now such changes with are

forcing companies to use the concept of digital transformation or even prepare for the problem of business survival. The need for digital transformation has become particularly evident with the onset of the COVID 19 pandemic. The crisis has further highlighted the division between digital companies and other non-transforming ones. These events have forced many to make adjustments to their digitalization strategies and their perception of processes within the company. (Jones, Hutcheson, Camba, 2021)

Since the concept of digital transformation of the company is an interdisciplinary process (Verina, Titko, 2019, Boneva, 2018), it is possible to describe it using a flow model that describes all the stages of the process. In the diagram below, you can see the model proposed by Verhoef, Broekhuizen, Bart, 2019. Addressing it in this study, we will focus on the stages of the digital transformation phases and strategic imperatives.

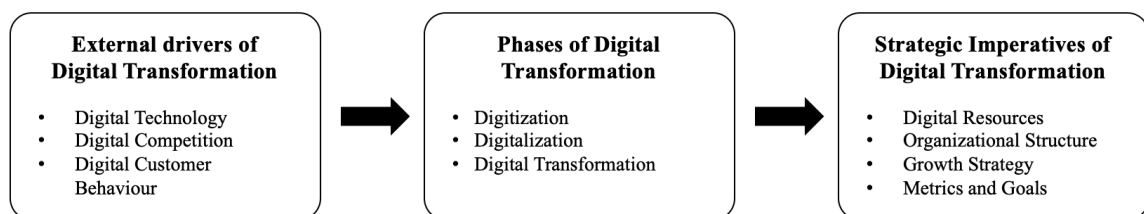


Fig. 1. Flow Model for discussion on Digital Transformation. (Verhoef, Broekhuizen, Bart, 2019)

In this thesis, we do not consider external drivers of digital transformation, since the study covers the process of digital transformation in the subsidiaries of MNCs in Russia, so the challenges that led to the start of transformation in the entire global company do not fall within the scope of the study. The phases of digital transformation will help determine the level of digital development of the company and draw the line between strategic imperatives. Strategic imperatives help to define the managerial and organizational context in which a company begins and conducts a digital transformation.

### 2.1.2. Phases of digital transformation

Technological products were not implemented immediately but were based on a phased implementation in business processes in accordance with both technical capabilities and

operational and strategic decisions. Thus the digital transformation takes into account the 3 main phases described by Verhoef, Broekhuizen, Bart.

Digitization can be considered as transition of data from analog sources to digital ones. (Oliveira, 2021) which means the start of using computerized systems to replace previous process. As a practice examples we can mention the implementation of digital document flow in the company or conducting surveys with digital platforms for market research. In most of the cases this phase aimed to cost savings and increase of operating speed.

If we talk about the basic technological instruments underlying the digital transformation, then there are the main ones. Enabling infrastructure for the digital transformation are Computer hardware, Software, Telecommunication equipment, data structures and Internet of Things (IoT) (Barefoot, Curtis, Jolliff, 2018) It is especially worth highlighting the latest, since the concepts of IoT and digitalization are very strongly linked. The functions of the Internet of Things in the company are: changing the process of creating products and services 2) creating new products based on the use of new technologies and obtaining large amounts of data about processes and consumers to predict productivity and efficiency, and as a result, speeding up and improving the accuracy of management decision-making processes. (Sestino, Prete, Piper, 2020) In general, the choice of digital tools and the organization of knowledge management is a big test in the context of management decisions.

Digitalization as phases is usage of digital technologies to achieve new business environment. (Gonçalves dos Reis, 2020) Digitalization allows companies to reach opportunities in improvement of processes within the company and/or contractors and other 3<sup>rd</sup> party connections. It means that digitalization is focusing not only on technological advantage but enhancing coordination within the company.

Digital transformation as the most improved phase consists of the change process that covers the whole company. Digital transformation goes far more than digitalization because it includes the change of the base logic of the processes with the value creation process. It means that only digital transformation can leverage current and creates new competitive advantages. (Liu et al., 2011). So we can state that this phase out of all is connected with business strategy enabling the usage of digital technologies in it.

The digital transformation phase is most noticeable in already functioning companies with well-established processes. Such companies need to conduct a digital transformation in order to remain competitive. But at the same time, such companies themselves are constantly faced with the need to cope with the conflicts that arise during the change of models. (Christensen, Bartman, & Van Bever, 2016)

As it became clear, the process of digital transformation affects not only the technological aspect, which is also certainly important, but also absolutely all the business processes of the organization in the value chain. (Oliveira, Fleury, 2021) To successfully start and implement digitalization, companies must approach the process comprehensively, starting with the entire company strategy. It should begin to be formulated at the corporate level. Both the overall vision of the company and the mission should be formulated. They will determine the scope of digitalization, as well as show the goals and reasons for the transformation of the organization. (Lipsmeier, Kühn, Joppen, 2020)

### **2.1.3. Business environment of digital transformation**

Since in this thesis the process of digital transformation is considered as a managerial phenomenon in the MNC, for a better understanding of all factors, it is necessary to understand the context of the business environment in which the transformation process is launched. The relationship between subsidiaries and headquarters is largely determined by the distribution of resources in the established organizational structure of the company. Growth strategies for digital transformation also define the roles of subsidiaries in the transformation process.

Digital resources for digital transformation are a combination of tangible and intangible assets and capabilities. The company's capabilities in digital transformation show how solutions using all HR, organizational and digital capital can be implemented simultaneously.

Digital assets are technologies that enable digital transformation and the knowledge and information needed to execute this strategy. (Ancarani, Di Mauro, 2018) Assets include tangible ones such as servers, robot installations, IoT sensors, etc. and intangible assets such as software, data storage and management systems. With their help, the company can effectively use the existing knowledge about business processes and acquire brand new data layers, which will create more value for the client.

Digital agility of the company is a necessary element for the successful functioning of any company in today's rapidly changing business environment. In the face of constant market uncertainty, the company must be able to respond quickly to changes. One of the main criteria for the Digital agility of the organization is the ability to quickly change organizational roles which reflects the relationship between the headquarters and the subsidiary within the scope of the work.

Digital networking capability is responsible for enabling the integration of disparate groups and stakeholders responsible for processes using digital technologies to address their common interests (Danailova, 2019). More effective are not just developments that use internal resources, but those that result from synergistic interaction. Therefore, more and more companies are starting

to use partnerships and create digital ecosystems. The development and implementation of digital technologies requires a large amount of accumulated knowledge, so the integration approach is one of the most effective.

In addition to the necessary resources, the organizational structure has the greatest impact on the successful process of digital transformation. Especially in terms of the adaptability of the company's organizational structure to changes. Large and bureaucratic hierarchies can significantly reduce the ability to flexibly adapt to digital transformation. In many cases, companies are beginning to move to flexible structures in order to build fast-adapting companies. Digital transformation of companies is widely discussed in the context of success stories, but there is still no clear understanding of how it affects the organizational structure and internal processes that lead to results. To achieve the result, the company creates sub-tasks and digitalization processes significantly improve this process. (Kretschmer, Khashabi, 2020). First, digital transformation allows you to have a much larger amount of information to make a decision. Especially in the case of the Industrial Internet of Things. The company has a new data layer that allows you to predict the next steps, among other things. (Sestino, Prete, Piper, 2020) Secondly, digital transformation entails the emergence of new tasks and forcing the transformation of current "human" processes. Data is important for companies, but early and rapid adaptation requires resources, so large companies are in a better position. (Kretschmer, Khashabi, 2020)

When MNC starts a digital transformation, it needs to track all progress in this process and introduce new KPIs, while realizing that the relevance of metrics can change significantly during different phases of digital transformation. During the process of digital transformation, KPIs that show intermediate results become more important. This is because the transformation process must remain flexible and be ready for rapid changes for the overall success of the strategy. All implemented digital tools allow you to technically implement such metrics that reflect growth indicators more than fix static results. In today's market conditions, stakeholders are willing to neglect current financial results, mostly focusing on the company's future growth and the business ' ability to capitalize on this growth. (Mortara, 2011) Therefore, when conducting the process of digital transformation, MNCs lay down 2 most important goals in the strategy: growth of financial results due to a better understanding of the client and the market, and reduction of operating costs due to automation.

Thus, we see that digital transformation is a progressive process in which any company, including such a resource-intensive one as MNC, must go through all the phases starting with digitization. MNC must be ready for digital transformation and a significant part of this training must be focused on preparing organizational capabilities. The company must be prepared to meet

the challenges associated with the operation of various business units and ensuring the overall flexibility of approaches together with the simultaneous progress of all MNC structures.

#### **2.1.4. Subsidiaries and Headquarter relations Role of subsidiary in Digital transformation process**

Currently, there are many multinational companies (MNC) with different organizational structures but with subsidiaries in different states that conduct their business activities.

Tracing the principles by which MNC begins to create subsidiaries located in other countries and markets (Mayrhofer, Prange, 2015), we can distinguish such as the search for resources, the search for new market opportunities, increasing efficiency and increasing the accumulated corporate knowledge.

The motivation to search for resources is based on obtaining exclusive rights to resources in foreign markets. This is very often due to the growth of MNCs that conduct rapid expansion. In the event of new market opportunities, the MNC implements the creation of a subsidiary in order to provide an opportunity to occupy the market. This method may be the only possible one, as it will allow you to produce products, market research and marketing activities, and implement local business development strategies in a financially efficient way. At the same time, there are still options in which the headquarters can use a subsidiary to stimulate internal competition.

The next case of using expansion at the expense of subsidiaries may be to increase efficiency. (Mudambi, 2014) This occurs when headquarters plans to use a subsidiary to improve the performance of other sister subsidiaries.

The case in which the headquarters of the company creates a subsidiary to search for knowledge most often takes place in countries with emerging markets. In these countries, it is possible to quickly increase the digital advantage due to the general economic factors of the country. Or the headquarters starts the development of a subsidiary company realizing that the foreign subsidiary already has knowledge that can be useful on a global level) The accumulated experience can then be scaled to the entire MNC or some sister subsidiaries. (Kostova, Marano, 2016)

Each subsidiary is included in the general network of the corporation, which means that the headquarters coordinates and controls their actions to some extent (Enright, Subramanian, 2007). This management can be carried out through various mechanisms, such as financial control. For example, the MNC headquarters may take all of the net profit or part of the operating profit of a subsidiary. This can be done either directly, that is, through dividend payments, or by increasing additional payments: payments for using the MNC brand, and so on. Using such financial policies,

the headquarters has full control over the subsidiary, managing the investment budget and financing all capital expenditures of the subsidiary. Most often, the level of resource support from MNC headquarters is associated with the implementation of certain goals set by the subsidiary. In this case, it can count on the redistribution of free cash flow to its own projects.

But in most cases, they come down to the distribution of the total resources of the MNC among the subsidiaries, which is implemented by the headquarters, depending on the local market and/or the strategy of the MNC. The allocation of these resources affects the structure of relations and influence between the subsidiary and the headquarters, which raises the strategic question of choosing between standardization or adaptation of the policies planned for implementation in the MNC. This clash of local and strategic interests can potentially lead to difficulties in building knowledge sharing and effective integration. In addition, such a MNC structure also means the existence of a common interaction but also competition for resources not only between the headquarters but also different subsidiaries distributed in different locations.

In addition to the described resource dependency, which is the main one, the MNC headquarters has other dependencies on which the control policies of the subsidiary are based.

Restrictions on participation in the capital of a subsidiary of other firms, control over large contracts, appointment of top managers of a subsidiary by the headquarters legal restrictions may include restrictions on participation in the capital of a subsidiary, selection of the level of contracts available for conclusion by the subsidiary, and appointment of top management of the company. The control over the use of intangible assets consists in the restrictions that the headquarters imposes on the use of the brand and issued patents.

Restrictions on the use of 3 parties from the MNC contractor network. The MNC headquarters can control the subsidiary's ability to access the preferred terms of MNC contractors such as financial and consulting companies, engineering and service contractors, research centers, and others. At the same time, MNC also controls its interactions with local and global alternative contractors.

One of the most effective tools for controlling the headquarters is to build financial dependence when a subsidiary covers part of its financial responsibilities through direct borrowing from the headquarters or subsidiaries under the control of the headquarters. (for example, guarantees for the debt financing of a subsidiary). CAPEX management is usually the biggest dependency of a Russian subsidiary. (Gurkov, 2015) The subsidiary must fully agree on the planned budget for the next year at the regional or global headquarters. Moreover, the investment plans are very detailed and contain all the planned expenditures on a very close scale.

Russian subsidiaries are also completely legally dependent on the main companies. Almost all Russian subsidiaries are limited partnerships with full ownership of the main company, either directly or through regional holding structures. (Gurkov, 2015)

Dependence on MNC information resources and knowledge bases is particularly important in the process of digital transformation. Thanks to this, the subsidiary company gets access to the general knowledge management system MNC and the headquarters also controls the information sources on which the digital transformation is built.

The behavioral dependence of a subsidiary is that the subsidiary must comply with established processes and standards for assessing situations, planning approach and decision making process. This includes the implementation of the generally accepted code of conduct, HR management policies, etc. This also includes the implementation of the generally accepted code of conduct, HR management policies, etc., as well as the creation and maintenance of emotional connections, trust and empathy between the employees of the subsidiary and the managers of the MNC headquarters and other subsidiaries.

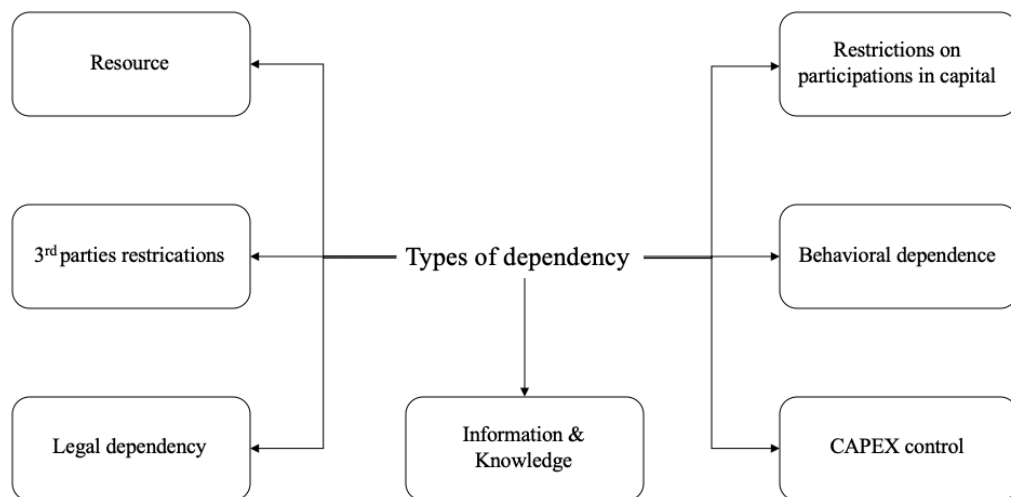


Fig.2 Types of dependency of a subsidiary

Source: compiled by author

The headquarters should very carefully evaluate the functioning of such relationships between subsidiaries. The headquarters, along with setting long-term strategic goals, should understand that all subsidiaries are involved in their own local environment, which has a lot of factors that affect the behavior of the subsidiary. (Tippmann, 2018)

The level of decision-making autonomy in subsidiaries may differ not only between different MNCs, which is determined by the organizational structure, but also within one MNC. These differences in the relationships between all divisions of the company can be caused by



completely different factors. In addition to financial and organizational control, it is often limited by the level of understanding by the headquarters of the local features of the market in which the subsidiary operates.

In addition to the relationship between the headquarters and the subsidiary, it is worth noting the relationship between the sister subsidiaries. (Yamin, Andersson, 2014) These relationships play an important role in the structure of the work of the MNC. Competitiveness often determines the relationship of subsidiaries that operate in their local markets. This may be explained by the fact that with the development of global trade, along with logistics infrastructure, lagging or weak economic and legal restrictions between countries in certain economic zones, the demand for the product and its management can be met not only by a local subsidiary but also by a sister company. This may not necessarily translate into the abolition of a subsidiary, but rather a reduction in its importance among other companies in MNC. (Ferraris, 2020) But at the same time if the main motive for the development of subsidiaries is the search for knowledge then not only the headquarters begins to stimulate the distribution of knowledge flows between subsidiaries but also the subsidiaries themselves increase the level of interaction with each other improving the efficiency of the developed solutions and developing a significant reduction in costs both financial and time.

#### **2.1.5. Digital transformation within MNC and subsidiaries.**

The entire process of digital transformation in a global company is very dependent on the influence of various organizational factors. Multinational corporations are also beginning the process of digital transformation in order to successfully compete with each other and be more efficient. Companies are implementing new digitalization strategies that include the development of IT tools, which is also expressed in changing the processes of the entire value chain: from the supply chain to communication with the customer. One of the major aspects of digital transformation is the standardization of the approach to process reorganization.(Ivančić, Vukšić, 2019) This is quite an obvious fact in the organization of all processes in MNC, however, since the digitalization process largely takes into account the implementation of digital solutions, companies use equipment and software from third-party manufacturers, as opposed to completely custom solutions created by the company itself. Systems from vendors are much easier and faster to implement in the MNC IT landscape and provide round-the-clock support from the supplier's specialists. It is also worth noting that an increasing number of implemented products are cloud solutions which further reduces the cost of implementation.

Such choice is determined by the factors of functionality, reliability and price emerged as the most important factors affecting a package's perceived value. (Keil, Tiwana 2005) If an organization seeks an enterprise package solution to replace its current software, making sure that the package delivers the necessary functionality will be of paramount concern. Reliability is also considered as very necessary especially on the scale of MNC volumes of data, product and financial streams. (Wang, 2006) Such requirements, together with the power and capabilities of the system, can be implemented only by a small number of IT companies that produce such corporate systems: Microsoft, SAP, etc. Such systems have a fairly high cost of acquisition, implementation, configuration and support. Thus, the MNC, which wants, as mentioned earlier, to find the most suitable solution for the price, forces the company to follow the path of economy of scale. The MNC headquarters is beginning to implement more standardized solutions, which also supports the development of stronger control strategies among all distributed subsidiaries.

However, the solutions and processes being implemented are very productive and efficient the standardization process limits the flexibility of the solution required by subsidiaries to correspond local conditions. (Vrontis, 2009) Then the question of how to choose and/or find compromises between global standardization and adaptation to local changes becomes relevant for the headquarters. Proponents of the standardization approach believe that in a global MNC produced by global products with a small local component, serious adaptation of processes and digital tools does not have significant positive effects. Maintaining homogeneous processes across the entire company structure ensures better change management and knowledge management. (De Beule, 2019, Lee, Jiménez, 2020) In this case, one of the most important arguments in favor of standardization and centralization is that IT managers responsible for the process of digital transformation are directly involved in the decision-making process. They can better manage a portfolio of digital projects that will perfectly align with the company's chosen strategy. The chain of decision-making in this case will be significantly shorter. (Thompson, 2014) If the process of digital transformation is highly decentralized and given to local departments, we can assume significant risks associated with the lack of local managers' ability to see the entire global picture of the company's processes and take into account all the consequences of making a decision.

The obvious argument is that local IT managers have a better understanding of the local market specifics and are much better able than headquarters to prioritize projects and determine the requirements for implemented and developed digital solutions.

While MNC may adopt a digital transformation strategy, subsidiaries may try to avoid hastily implementing standardized solutions or finding loopholes to continue working in accordance with their current processes. (Della Peruta, 2018) Subsidiaries in the regions have a heavy burden on their operations. Thus, the introduction of a new system can have a very serious

impact on the performance of everyday tasks. Therefore, subsidiaries can start an open discussion about the solution chosen by the center.

The problems that a subsidiary may face when implementing a centralized solution may include:

- the need to change data management systems
- reallocation of system administration responsibilities (with the transition to a cloud-based centralized solution, access to management and support can be transferred to the central IT office or to the 3rd party)
- the format of collected and stored data in each of the subsidiaries
- integration of new systems with solutions from local vendors that make up the company's systems landscape or regional partners.

Such cases often lead to a serious reduction in the speed of the entire digital transformation process which can lead to the direct implementation of a system imposed by the center or the creation of several systems based on a subsidiary to ensure the operation of both a centralized system and the current operating activities of the company.

The overall process of adoptability is influenced by the communication and influence processes between headquarters and subsidiaries, as well as the work of subsidiaries in local markets. The degree of efficiency and adaptability of a company's changes can increase if subsidiaries gain more weight in making digitalization decisions. The headquarters needs to think better about the involvement of the regional branches of the organization at an early stage then the subsidiaries will have more motivation to agree and make decisions and priorities received from the center. (Reilly, 2014) The center also needs to better understand the regional specifics of the subsidiaries ' business. Subsidiaries welcome digitalization initiatives that significantly automate and increase the efficiency of processes, or take into account the specifics of the market, which is not possible with existing systems.

The technologies and digital tools that the subsidiaries use doesn't make much use of the research collaboration between the other subsidiaries. The study provides an example when technologies operating subsidiaries communicate significantly less with customers in the process of their implementation. Nevertheless, the tools developed by subsidiaries can be very effective and useful in the overall landscape of the company. The study shows that branches that are too focused in the process of digitalization, overly focused on the local market, can lose influence within the entire global organization and distance themselves from future influences and strategic resources and knowledge. Thus, increased autonomy does not necessarily entail an increased role

in the MNC. To avoid separation or incommensurability of research efforts with the rest of the MNC, subsidiaries should transfer more knowledge and expertise to the global MNC.

#### **2.1.6. Research gap**

After analyzing the literature, we can conclude that the topic of digital transformation is sufficiently studied. The topic of relations within the MNC organization has approximately the same level of study. The topic of digital transformation in subsidiaries, on the contrary, is very limited. As shown by the analysis of sources, this topic has only recently begun to develop, for example, in the article Peter Ekman, 2019, which showed the impact of the relationship between the MNC headquarters and subsidiaries. But no studies have been conducted showing the impact on Russian subsidiaries.

Nevertheless, a wide study of the relationships of subsidiaries has different frameworks behind it. The research takes into account not only the control methods used by the headquarters, but also the reasons motivating MNC to expand with the development of subsidiaries in local markets. Both among subsidiaries and between the subsidiary and the headquarters, there may be disagreements and conflicts caused by the control dilemma. Digital transformation as a strategic process involving many corporate functions is often the trigger of such conflicts within MNC.

In this thesis, in order to meet the found research gap, we will follow the following research framework. First, we need to determine what role MNC's Russian subsidiaries have in the digital transformation process. Second, to investigate the influence of the headquarters and sister subsidiaries on the Russian subsidiary. Third, to understand the specific features of the Russian market that affect the transformation process in Russian subsidiaries and fourth, to understand what management decisions are important in the process of adopting digital transformation initiatives.

#### **2.1.7. Research goal and aims of the study.**

**Goal of the study:** The main goal of the study is to study the features of digital transformation in the Russian subsidiaries of MNC, to understand what influences and what actions ensure the implementation of digital transformation.

**Object of the study:** This thesis presents a study of MNC companies listed in the Forbes Global 2000 that have headquarter geographically based outside the Russian Federation with large subsidiary in Russian Federation upon Russian jurisdiction without limitations of organizational form.

**Subject of the study:** digital transformation process in Russian subsidiaries of multinational companies

In order to focus on the selected issues, the following research questions were formulated:

**RQ1** What are the Russian subsidiaries positions in the hierarchy of the global MNC digital transformation process?

**RQ2** What is external influence the of the MNC HQ or sister subsidiaries within the Russian subsidiary role?

**RQ3** What is Russian market peculiarities in the scope of the global MNC digital transformation process?

**RQ4** What managerial practices of Russian subsidiary are important in the adoption of the strategic digital transformation initiatives?

This study shows how the process of digital transformation takes place in the Russian subsidiaries of MNC. The thesis uses a framework that shows the transformation process in terms of the global digital transformation process, the relationship between the headquarters and sister subsidiaries, and the circumstances of the company's functioning in the Russian market. The empirical research and results are based on interviews with MNC managers and consultants involved in the digital transformation process in subsidiaries.

## **2.2. Methodology**

### **2.2.1. Research design**

The analysis of digital transformation in Russian subsidiaries covers various aspects of MNC's work: topics related to the organizational structure, communication within the company, and knowledge management. Thus, the research is conducted in the field of digital transformation, which is limited in research and does not contain enough data.

As it became clear from the study of the theoretical background, the topic of digital transformation in MNC in Russian subsidiaries is limited. Thus, the chosen research design will be the exploratory study. The research allows for a broad understanding of the topic along with new insights. This is an important aspect that can be distinguished from the very definition of the study. The researchers believe that this is the detection and isolation of a specific phenomenon in data analysis. This is an important aspect that can be distinguished from the very definition of the exploratory study. The researchers define this method as the detection and isolation of a specific phenomenon in data analysis. (Jebb, Parrigon, Woo, 2017). Thus, the chosen research design is the best way to understand how MNC's subsidiaries in Russia can adopt the process of digital transformation.

### **2.2.2. Research methods**

In order to answer the research question, we need to choose the research methodology that will help the best to answer the research questions posed during the preliminary theoretical study.

Among all the methods used for research, there are the main ones: qualitative and quantitative. Each of the methods has its own advantages and disadvantages which are manifested when the appropriate or inappropriate application of the methodology is applied accordingly. The quantitative method allows you to make management conclusions based on numerical data that is usually obtained from a single source and processed using statistical methods to obtain a generalization. It is worth noting that the use of the quantitative method as its object is the confirmation of the theoretical background that has already been obtained by the deductive method. (Zaborek, 2009)

Here it is worth making an explanation about the nature of deductive and inductive strategies, which are very important for understanding the choice of research methods in this work. The deductive strategy is based on the analysis of a well-developed theoretical background on the basis of which hypotheses are formulated that will be tested in the course of the study. Thus, empirical research in deductive strategy is aimed at testing hypotheses rather than creating new

ones. The inductive strategy is aimed at investigating a new phenomenon and thus does not have much theoretical work behind it. Thus, the methods of inductive strategy are aimed at identifying new insights in the phenomenon under study.

Qualitative methods the object of research is the construction and development of the theory based on inductive research. Qualitative research involves gaining an in-depth understanding of the research problem, often through the use of various types of expert interviews (structured, semi-structured, and unstructured) as the main source of information collection. The data obtained are processed using an analytical approach without using statistical methods which can potentially lead to gaps in the study. (Zaborek, 2009)

As mentioned earlier, this study is conducted on the insufficiently studied topic of digital transformation in subsidiaries of multinational companies in Russia. However, since the theoretical background of the subject is rather limited, a qualitative research method will be used in the study. It will reveal the behavior of MNC subsidiaries and cover all possible factors that influence the implementation of digital transformation in subsidiaries in Russia.

Qualitative research consists of 5 main stages (Cropley, 2019):

- **Attending:** The initial stage of the study. The participants of the study are selected who have structural knowledge and can share the necessary knowledge.
- **Telling:** At this stage, data is collected. Here, an important circumstance is the fact that during the collection of empirical data, it is important to approach this process very carefully, since there may be a distortion of meanings. This is due to the fact that the received information can be distorted due to many factors related to the communication process.
- **Transcribing:** At this stage, the study is recorded. This is a necessary stage for the formalization of the study. This is where the collected data is organized.
- **Analysing:** At this stage, the analysis of the narrative that was recorded at the previous stage takes place.
- **Reading:** At this stage, the report is prepared and the results are presented.

During a qualitative study, various methods of collecting information can be used. Information may be collected by participant observation, non-participant observation, shadowing and case studies. But one of the most common methods of collecting information during a qualitative study is an interview. In the social sciences, the number of interviews in conducted research is 90%.

There are 3 types of interviews: open, semi-structured and structured. Interview types differ in the organization of questions and the course of the interview. Semi-structured interviews were

selected to collect information in this work. They are interviews obtained using a pre-defined structure and questions that were formed on the basis of preliminary theoretical research. At the same time, this type of interview allows you to get additional insights that the interviewer may not be aware of due to limited research on the topic. Since the advantages of this method coincide with the features of the work on digital transformation in MNC subsidiaries, this method was chosen.

Open interviews are conducted in a structureless format. This implies that the questions may change from interview to interview, but still continue to refer to the subject of the study. The peculiarity of open interviews is that the interviewer studies the structure of the interlocutor's answers to a greater extent, since he does not have enough information to formulate the framework in advance. Structural interviews, on the contrary, are very structured. Of course, in this type of interview there are open questions, but unlike other types of interviews, the presence of questions with the choice of the answer is already implied here. Therefore, this type of interview can also receive quantitative data. Based on these factors, these interview techniques will not be used in this study.

### **2.2.3. Data collection process**

For the process of collecting information in this work, non-random sampling is used. This fact is explained by the fact that the research questions in the work require the interviewers to have a specific understanding of the topic in order to conduct an in-depth interview.

The next step is to determine the sample size that is sufficient for an effective study. In a qualitative study, the sample size should be sufficient to conduct the study and form reliable conclusions from the work. The choice of sample size during a qualitative study is influenced by various factors. The width of the selected theme has its influence. In this case, the broader the topic, the fewer cases are worth considering, since sufficient generalizations are assumed to be made on a small sample. In addition, the required sample size depends on the intensity of the interview, that is, on the format of the in-depth interview. This thesis assumes the use of semi-structural interviews, which implies a strong immersion in the context of the topic.

The next step in the process of collecting information is to choose a sampling technique. Since the method of non-random sampling is used for the work, the choice of approach will be determined among the methods of this method. Among such approaches are: quota sampling, convenience sampling, purposeful sampling, self-selection sampling and snowball sampling. In this thesis, we will use 2 approaches: self-selection sampling and snowball sampling. The first is that on a volunteer basis, we collect candidates for research. This is done by placing the ad in publicly available sources. In our case, professional communities on social networks were used.



The snowball sampling approach involves access to narrow-area candidates who, through their connections, can provide access to other candidates from the same area. This approach provides sufficient homogeneity of the group, but in the case of this work, this factor does not carry significant disadvantages.

After selecting the sampling approach, you must select the criteria by which the candidates will be selected. For our work on digital transformation in Russian subsidiaries, the following criteria were used. As companies for the study, we used Employees of MNC companies listed in the Forbes Global 2000 that have headquarter geographically based outside the Russian Federation with large subsidiary in Russian Federation upon Russian jurisdiction without limitations of organizational form. The criterion of finding MNC in the Forbes 2000 list, which is formed by revenue, net profit, assets and market capitalization of companies, allows us to identify the size of the company, since it is the processes of digital transformation in the subsidiary that will be more clearly presented on a larger scale.

Having identified the companies suitable for the study, it is necessary to identify the criteria for candidates for the interview. It is important to understand that the quality and depth of insights obtained during the research will depend on the choice of candidates. Therefore, the interviewees must have sufficient competencies and experience to understand the topic. Thus, we can distinguish the first criterion: the interviewees must hold managerial positions. Thus, they have the opportunity to see the processes more widely than their colleagues in lower positions. The second factor will be determining the specialization of the interviewees. These should be managers of MNC's Russian subsidiaries who are involved in the implementation and implementation of digital transformation processes. In addition, in the course of this study, consultants of companies that help Russian subsidiaries in digital transformation will be interviewed. This criterion, however, will not add more heterogeneity to the sample, since consultants must be very deeply immersed in the company's processes operating on the various roles simultaneously (Fernández-Rovira, 2020) when participating in the digital transformation processes. Thus, we can conclude that they have similar features in the dimension of this study.

In order to conduct the interview in accordance with the chosen research methodology, primary questions were compiled in order to set the structure of the interview.

The structure of the interview was divided into the following parts:

- Digital transformation of the company, perception of the strategy and understanding of the origins of the strategy and goals of the company.
- Hierarchical relationships in MNC, dependencies between structural units, headquarters and sister subsidiaries.

- Specificity of the regional market in Russia that affect the company's operating activities and, separately, the processes of digital transformation.
- Management practices that are used in the Russian divisions of MNC in Russia, what mechanisms are used to adapt global strategies.

Nevertheless, it is worth describing the challenges that arose during the interview. First of all, a fairly large sample size and strict requirements for the position and projects of the interviewees led to a complicated stage of searching for and conducting interviews. Since the interview took from 30 minutes to 1 hour, it was not the easiest task to arrange an interview. To overcome this, it was necessary to better communicate the goals of the study and show its practical usefulness.

The next major challenge during an interview is that the managers and consultants being interviewed take the trade secrets of the data they share very seriously. This is due to the fact that the interlocutors who are in high management positions have extensive knowledge of sensitive information that can be used by competitors. At the same time, the processes of digital transformation studied in this work affect all possible business functions, which is also regarded by the interlocutors as a potential risk. In addition, since this study is conducted for large multinational companies, such behavior and risks are formalized and almost all the interlocutors mentioned the NDA they signed. In order to mitigate such risks and arrange an interview, the objectives and motivation of the study were clearly explained to the interviewees. Also, the questions asked did not contain clear boundaries, allowing the interviewees to choose the available level of information disclosure accepted in their company.

Patterns and patterns were identified through the use of thematic analysis, with the help of which it is possible to identify the necessary topics from what was said during the interview. This method of analysis is often used when conducting semi-structured interviews, since if the structure of the interview is observed, additional topics that may not have been covered in advance still continue to appear. So, following the methodology, after the interview the created recordings were transcribed and structured for further analysis to identify common patterns. On the next step the manual coding was applied to transcribed data to select data relevant for the research. Next, the codes were united into suitable themes for creating common patterns for all data. Themes are highly related to the formulated research questions so they have a clear semantic division and no intersections were allowed. Finally, conclusions about digital transformation in Russian subsidiaries of MNC were made and presented as a research results.

#### **2.2.4. Potential limitations of the research**

Since the research methodology is the analysis of expert interviews in the collection of information, there may be some limitations associated with the size of the sample used. Thus, with such a study, even with a greater depth of research of the question, there is a danger of generalization errors.

Thus, in order to eliminate the likelihood of such errors and increase the reliability of the study, it was conducted in strict accordance with the established methodology. The interviews were conducted in a semi-structured format that allows you to compare the results of different interviews. 12 expert interviews were conducted in accordance with the designated sample size. The interviewees were from targeted multinational companies conducting digital transformation processes or consultants on the same projects.

### **2.3. Summary of the chapter**

In this part, work was carried out on previous theoretical studies, identifying gaps in the implementation and formation of the method of practical research.

From the theoretical research it becomes clear that although the topic of digital transformation is well studied, there is an obvious gap in the research regarding the implementation of digital transformation in the Russian subsidiaries of international companies. Together with the significant organizational difficulties experienced by multinational companies in making changes, the digital transformation that involves all parts of the value chain has an even stronger impact on the relationship between the headquarters and the subsidiary. There is a clear clash of approaches to standardization and adaptation. And since the local specifics of doing business in the local market can have a serious impact on the application and adaptation of digital tools used in the company, this becomes a serious test.

The exploratory study was chosen for the research. Due to the insufficiency of the previous reports on the chosen topic, this method allows you to discover new insights. Field interviews were chosen as the research strategy. They allow you to simultaneously obtain new knowledge with a similar structure of the conducted interviews, if this has not been investigated before. The following sampling techniques were used: non-random and snowball sampling. Together with the selection of sampling criteria: managers or consultants with responsibility in the field of digital transformation from subsidiaries of MNC companies listed in the Forbes Global 2000 that have headquarter geographically based outside the Russian Federation with subsidiary in Russian Federation upon Russian jurisdiction without limitations of organizational. 12 interviews were conducted: 9 with managers of Russian subsidiaries and 3 with consultants.

Such a study has possible limitations related to the sample size, but nevertheless, the number of interviews conducted allows us to confirm the reliability and credibility of the study.

The next part will present the results of the interviews that will allow you to explore the process of digital transformation in Russia of subsidiaries of international companies and understand why this process is necessary.

### **3. CHAPTER 2. Empirical study**

#### **3.1. Findings**

This part presents the formulated insights and findings obtained as a result of an empirical study conducted with the participation of managers and consultants involved in the digital transformation projects of subsidiaries of multinational companies in Russia. All the results obtained were processed using the accumulated results of the literature review on the basis of which the research framework was developed.

Thus, the study will be structured as follows. At the beginning, the global process of digital transformation in an multinational company will be defined, the priorities will be defined and the prerequisites for the start of the digital transformation strategy in an multinational company and specifically in a Russian subsidiary will be shown. Next, there will be certain positions of Russian subsidiaries in the overall hierarchy of an multinational company in terms of the digital transformation process. In the next part, the features of the Russian market that affect the transformation process will be shown and the most strongly influencing factors will be discussed. The last part of the discussion of the insights received will discuss the management practices that Russian subsidiaries use to adapt global solutions in the context of digital transformation adopted in an multinational company. And it is also worth noting once again that general conclusions will be made without disclosing any partial information about the interviewees obtained during the interview such as the company name the name of the interviewee and any other accurate data unless written consent has been obtained for the disclosure of such data.

##### **3.1.1. General project description**

A total of 12 interviews were conducted from managers and consultants conducting digital transformation processes. All the interviewees represented different companies, so the projects did not overlap with each other and represented different industries. Nevertheless, the similarity of the levels of positions-all respondents had a so-called “helicopter view” of the processes in the company and the specifics of the projects on which the interlocutors were engaged allowed us to identify common characteristics and factors that were similar in all projects.

All projects included large-scale changes affecting various regional offices, including those that fall under our study, that is, Russian ones. A good advantage of the study is that 9 out of 12 interviewees lead the transformation process from the very beginning, understand the background of the emergence of such strategies and occupy high enough positions for direct communication with headquarters. The distribution of responsibility is also a significant factor in such a study, as

managers being interviewed and consultants of Russian divisions have a higher level of access and responsibility compared to colleagues on the similar positions from other regional offices:

*“Foreign offices have less responsibility compared to “parallel” positions in Russia. From my experience, the responsibility and delegation of line employees can be similar to the Grade+1 level in foreign offices.”*

### **3.1.2. Digital transformation strategy in the MNC and subsidiaries.**

When researching digital transformation strategies, it is very important to understand the definition of this process that is implied in each company. With the definition established in the literature review, during the interview, we allowed differences related to the practical aspects of creating and implementing a digital transformation strategy. Simplifying processes, automating processes, and moving from paper-based media to digital platforms. Digital transformation refers to the strategy of changes in current business processes that can be achieved through the use of new technologies and platforms. Important parts of this process are process simplification, process automation, and the transition to digital platforms as the primary media. Despite the fact that the Russian divisions are part of large MNCs and digitalization initiatives have been implemented for quite a long time, the last point related to the digitalization of documentation and the reduction of paper bureaucracy is still significant for Russian offices.

*“Receiving information from quarterly and annual questionnaires among all employees of the division, the constant pain of the processes revealed by the employees called the bureaucracy and the associated paperwork and the long and inconvenient process of committing on various documents, contracts and etc.”*

Having enough operational challenges that are more concerned with subsidiaries focused on such activities, the company's strategic interests in conducting digital transformation remain a priority and are shared and accepted by those responsible in the regional divisions. All respondents say that the main driver of digital transformation on a global scale is competition which is especially evident in large multinational companies that already occupy a sufficient market share and want to maintain it or find a driver to increase it. Multinational companies see great prospects in such a process and set and follow the global trend for such initiatives.

*“I believe that it is quite fair to say that digital transformation is currently an necessary part of the company's strategy.”*

Companies at the global headquarters level define the goals and metrics by which the digital transformation process will be measured both in all companies in general and in regional offices, which adapt and cascade the resulting KPIs.

Based on the obtained data on the strategic perception of digital transformation, the homogeneity of strategies in the context of the root causes of the process and the scale of the planned changes was understood. Thus, we can conclude that multinational companies have been implementing digital transformation strategies for a long time and already have some experience, but nevertheless, the speed of development of the industry market and technical tools creates the need for constant development and overcoming new challenges to gain a competitive advantage.

### **3.1.3. MNC hierarchies when conducting digital transformation processes.**

Hierarchical structure communication is one of the most important components of the MNC organization. This is reflected in the schemes for the distribution of responsibility in the creation and coordination of any initiatives and processes, as well as in the distribution of funding, determining results, understanding possible synergistic effects and interactions between different elements of the hierarchical chains of the company's organizational structure.

For the study of hierarchy, hierarchical dependencies were separately studied in general to understand the levels of subordination in the subsidiary and headquarters, and the same question with respect to the processes of digital transformation. Each of the MNCs in which the digital transformation project was carried out has a rather complex organizational structure. 11 of the 12 managers and consultants mentioned the need for coordination with the global office in the context of a significant complication of the process. Subsidiaries try to find opportunities to offer local initiatives. The most important aspects of this process are greater adaptability of initiatives to local needs, more prepared simplification of processes, and a significant reduction in the time required for the development and implementation process.

In terms of hierarchical structures and relationships, 2 main groups should be distinguished:

- subsidiaries in Russia are the business unit of the company's main activity
- subsidiaries in Russia are part of the holding structure with units of different activities

The second case is particularly difficult in the processes of coordinating initiatives. This is due not only to the large number of hierarchy levels, but also to the difference in the specifics of each business unit. When discussing digitalization processes that rely heavily on a standardized approach, this structure significantly complicates and slows down the development and implementation of digital transformation initiatives. And since, as mentioned earlier, digital transformation affects various commercial functions, such a strategy needs to be adjusted at the global level of MNC headquarters. The attempt to use unified processes by the headquarters leads to a loss of efficiency and meets with resistance from subsidiaries that are aware of the costs faced

when implementing projects that do not take into account their specifics. Nevertheless, the subsidiary has to comply and find its own solutions to maintain simplified processes.

*“Our company is distinguished by a special specificity of standardization of processes that has not been taken into account at the scale of the activities of the entire global company. But the headquarters had a policy of common processes. Thus, obeying us, we had to overcome significant difficulties on the way coordination and agreement on any initiatives.”*

At the same time, in the MNCs with subsidiaries which are engaged in the main activities of the company due to the initial organization structure or M&A deals the process of conducting initiatives is greatly simplified. In general, the availability of discussion of initiatives, especially in the context of digital transformation, is clearly considered by the respondents as a serious advantage. This position allows those responsible in the subsidiaries to be better understood and avoid possible misunderstandings.

*“In our work, there were no such problems (related to activities differed from the main holding businesses) as the company's product portfolio varies between regions, so standard procedures are effectively applied.”*

In almost all cases, Russian subsidiaries are part of regional clusters, which are usually grouped by geography reasons. But nevertheless, in the 2 cases received, the change in cluster membership was described due to a similar market situation in another region.

Regional division allows you to better distribute responsibility between functions and focus on the specifics of the region. With this division, subsidiaries are more able to declare the correctness or incorrectness of the proposed rules, strategies, and other global projects. The employees of the subsidiary also often have the opportunity to interact directly with the management of the region. This approach of direct interaction with the management of global offices is very useful and effective in digital transformation projects. As mentioned earlier, almost all managers and consultants have spoken about the need for coordination with the global office, so the processes of direct interaction are important.

*“Compared to my previous experience working in similar positions in multinational companies I want to note that the processes that allow us as a regional division to be heard make it very easy to overcome bureaucratic procedures and allow us to concentrate on our current work. Now, in fact, we can organize almost any call, even with the company's top management.”*

By exploring the process of digital transformation, which is often much younger and less established than the rest of the commercial functions, it was necessary to understand the impact and possible difference in the hierarchical structures of multinational companies between the usual commercial functions and during or on digital transformation projects. All respondents clearly



showed the presence of a more evicted level of autonomy of the regional unit in the transformation project, in contrast to other global projects. (Fig.3) Based on the feedback we can say that the difference is not very strong but nevertheless it is obvious for managers who are in top positions in subsidiaries.

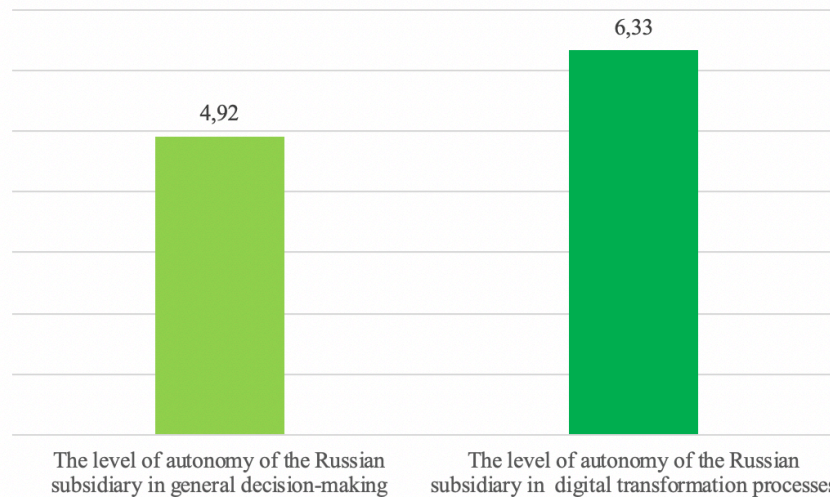


Fig.3 Level of autonomy regarding digital transformation projects in Russian subsidiaries

Source: compiled by author

After analyzing all the interviews, two main reasons were identified: the difference in the assessment of the level of autonomy of the digital transformation process in contrast to other projects. The first group of factors is related to aspects affecting technological tools. The higher level of autonomy of such projects in the Russian subsidiary is due to the fact that it often requires the use and implementation of equipment or software from local vendors. The software of the local vendors is used in the Russian subsidiaries in order to best take into account its needs regarding the specifics of doing business in the region.

As it became known from the interview, large solutions implemented in MNC are very expensive. Thus, this creates a problem that almost all of MNC's Russian subsidiaries face. The introduction of global vendors' products is so expensive that it is almost never implemented in one country. The most common scenario is the deployment of the system either in all the countries of MNC presence or at least in the region. Therefore, Russian subsidiaries are forced to adjust the digitalization of processes, I focus on the possibility of a global vendor implemented in all MNC divisions. At the same time, global solutions cannot cover their needs in any Russian subsidiary. At the same time, for example, the European subsidiaries do not experience any difficulties. Often this is connected by the fact that developers of multinational solutions do not focus on the peculiarities of the Russian market and create a solution that is thought out for other processes and other markets.

*“Our company has to use regional vendor tools, as without them we simply will not be able to solve the daily tasks faced by various business units.”*

Thus, the management of regional offices or the headquarters of an multinational company obviously can neither choose nor lead the process of implementing such solutions as part of the digital transformation process. The heads of the departments responsible for conducting digital transformation get more autonomy to manage such digital solutions.

And the second group of factors that lead to the fact that the level of autonomy differs is associated with individual units within all companies that are engaged in conducting digital transformation. Usually these are new positions within the company both in the Russian subsidiaries and in the MNC headquarters which are guided by other standards and rules due to the new and necessary digital transformation process.

*“I explain this difference by the fact that a person was appointed to our subsidiary company who had more authority on the digital transformation project compared to other global projects implemented, including in our office.”*

#### **3.1.4. Russian market peculiarities in the scope of the global MNC digital transformation process.**

The Russian market has strongly pronounced regional features that appear in the conduct of business of an multinational company and as a result in the process of digital transformation. As mentioned earlier in the previous part, Russian subsidiaries are needed to use Russian vendors' software. Behind this lies the reasons that have been explored in this part of semi-structural interviews. These reasons include in order to meet the unique features of the Russian market and the legal framework in which the company needs to operate.

First, since each company from a different industry was interviewed, they mention external factors related to the introduction of business in Russia. This may include the specifics of distribution, the specifics of the socio-economic nature, the specifics of consumer behavior, as well as the specifics of production on the territory of Russia.

*“In our FMCG company case we are faced with a completely different structure of working with distributors due to the fact that the distributor market in Russia itself is completely different from what our company is facing for example in Europe. So, we need digital tools that can take into account this difference in operating activities.”*

The second reason is more extensive and again each of the respondents mentioned it as the main feature in the implementation of digital transformation in Russia in the divisions. This is due to the peculiarities of national legislation.

Of course, the features associated with the Russian accounting system are mentioned, that is, accounting and the system that provides its automation are meant. As well as other reporting systems for accounting by the current legislation. This may be due to the marking of goods with excise taxes that are used. This is a unique system for the regional Russian market, which in recent years has been increasingly extended to different categories of goods. These systems include not only the relevant software that needs to be integrated into the systems of the Russian subsidiary but also changes to the production cycle since the marking takes into account the installation of specific tags such as RFID tags and etc.

And as for almost every project there is a figure of transformation in Russia, these are issues of Data privacy. Each industry has a different regulation and the respondents also say that this challenge can affect different industries in different ways. Of course, such rules most strongly affect such industries as banking, telecom, pharmacological and medical companies, which stand out due to the even stricter attitude of Russian legislation to such data. Other industries are also forced to largely take this point into account in the process of digital transformation. Such tasks most strongly affect the overall process of digital transformation of the Russian division and, most importantly, can significantly slow it down. This is due to the fact that the regional office has to make great efforts in order to find an opportunity to implement the project. At the same time, there are real difficulties that cannot be overcome now without changing the legal framework. In this situation, the company is powerless.

Here we will observe 2 cases in which Russian subsidiaries of MNC found themselves in the course of digital transformation.

The first case is derived from the banking industry and is related to the service of private clients. Many banks in the service of private clients come to us with digital tools for ease of use and the creation of new banking products that add value. Such products are widely distributed in Russia and they are also growing in popularity in Europe. However, in accordance with Russian legislation, the client cannot be identified without being physically present at the bank's branch. Thus, when designing a client path, such a condition should be taken into account by the product manager of the Russian division. Since it becomes obvious that the use of standard procedures that have been tested in other countries cannot be used in the Russian national market.

*“There is such a serious challenge for the bank and for the industry in general in Russia when we cannot use the best practices of our Western colleagues in the development of a project equal to the client path so many hypotheses are created and tested initially by us and this completely changes the approach to creating a product in fact this is the creation of a new product in the course of digital transformation.”*

The second case also concerns the conditions for storing data of Russian citizens who are customers or employees of a Russian subsidiary. Therefore, such restrictions apply to almost all the sayings of the industry. A special case is the example of a CRM system to a global vendor that is a global solution in MNC. The cloud system is increasingly used in the business of multinational companies as they ask for support and reduce the cost of maintenance due to the lack of their own computing power. The vendor's cloud CRM system is located on servers located in a country that may be considered unfriendly in Russia. This means that the data of Russian users cannot be stored on the servers of this system. In order to solve such a problem, the Russian office turns to a regional Russian vendor and places its platform on a Russian server. Then the main office of the multinational company allocated funds and capacities for the deployment of the CRM system on servers located in a third country. The next steps are to configure the system interfaces for connecting all elements of the regional Russian and global platforms.

*“The Global Office is forced to buy additional computing capacity in third countries in order to meet the needs of countries with issues in processing personal data. Our country (Russia) is also among them.”*

### **3.1.5. Managerial practices of Russian subsidiaries for global digital transformation adoption.**

This part will describe the management practices that are used in the Russian subsidiaries of MNC to adapt global digital transformation projects. As it became clear from the insights about the peculiarities of the Russian market and the hierarchical dependencies of subsidiaries, including in Russia, it is necessary to understand the existing practices that are used by Russian subsidiaries in order to overcome these challenges. Such practices include how practices are aimed at taking local specifics into account in a global project, options for working out their own initiatives, as well as organizational changes including changes in subsidiary structure.

### **3.1.6. Adoption policies**

All MNC understand the need for adaptation of solutions and policies of regional offices including Russia. Naturally, an multinational company will not change its strategy due to the special conditions of the specific market in which it is represented, but nevertheless, an multinational company has mechanisms that allow it to adapt the global digital transformation solution with varying degrees of efficiency and speed.

In order to understand how the digital transformation project adapts in a subsidiary, it is necessary to understand the process of transition of a global project to the level of a subsidiary.

The results obtained during the interview show that the work is conducted with a global project team that is created as part of a agile approach to the development of a new product or process. (Fig.4)After that, a local team is created with approximately the same functionality and management level and competencies but at the subsidiaries level. This is necessary for building dialog communication between two structural units within the company, which significantly increases efficiency.

*“As part of the current agile approach to the development of the digital transformation project, creating teams with similar functionality at the local level allows us, most importantly, to build a more understandable communication process within our company.”*

The next steps are to evaluate the scale of the project received from the global team. The local project team fully understands the processes and technologies that need to be implemented in order to fully understand all the details of the proposed transformation. With this understanding, the team can project local specifics on such a project and reasonably enter into negotiations with the global office if it is necessary to make the necessary changes necessary for the successful conduct of the project in a subsidiary. After approval, a prototyping phase is carried out, after which the viability of the proposed changes is also checked, followed by development testing at different levels and then implementation is carried out on the scale of the entire subsidiary.

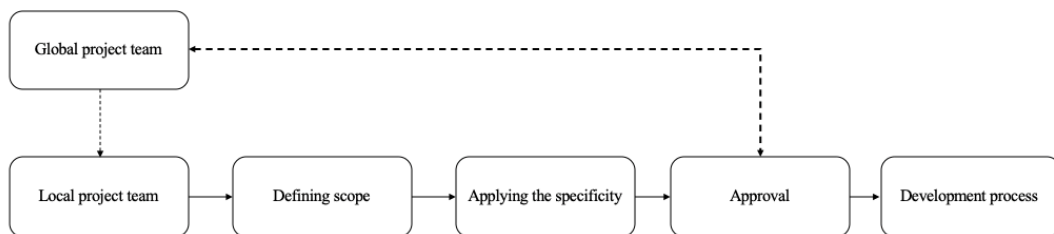


Fig.4 Conceptual process of adopting global digital transformation initiative

Source: compiled by author

If a subsidiary of an multinational company needs to develop a new digital process, and this is often the case in the work of a subsidiary in a market with strong specifics (for example, such as the Russian one), then other practices and frameworks are used. (Fig.5) Such cases were mostly received from interviewed consultants, so the company often engages third-party consultants for such a process. The development process begins with the creation of a concept script with product hypotheses that initially form the overall appearance of the product process. Next, the current AS-IS process is built, which shows all the processes taking place now. Then the product hypotheses are tested. This is done in several ways: on mass surveys that do not give a

very accurate result but are cheaper to conduct, as well as in interviews that are more accurate and allow you to find out the questions necessary to understand the "pain" of the stakeholder business process in a subsidiary of MNC. Proven hypotheses form the basis of the product's MVP, which is developed and then tested and implemented.

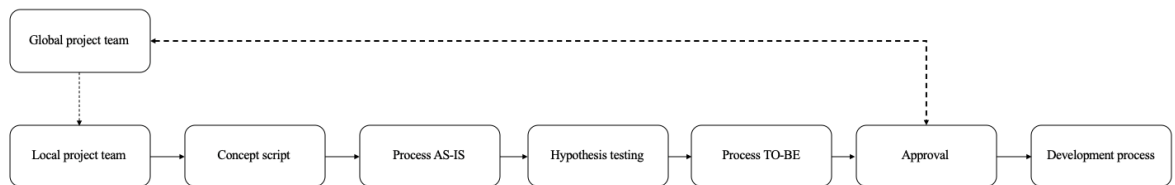


Fig.5 Conceptual process of adopting global digital transformation initiative through new initiative proposal

Source: compiled by author

As the interviewees have often pointed out in interviews before, specific markets require a special approach to the digital tool that is used for transformation. Therefore, the described concept takes into account the specifics of the adoption of new centers in the company's infrastructure. Companies are quite open to the use of local software by subsidiaries if it really improves the efficiency of the office. However, since all regional subsidiaries, including Russian ones, operate in the general hierarchy of an multinational company, the process of ensuring the availability and compatibility of all software interfaces is mandatory. But at the same time, cases were mentioned in which those responsible for the implementation of a local tool had to meet with a certain resistance from the global office caused by an increase in the cost of general transformation processes, as well as an increase in the execution time of new projects of the global office.

### 3.1.7. Organizational changes

It is worth noting that all the interlocutors noted the organizational difficulties and changes that need to be applied in order to successfully carry out the process of digital transformation. Employees of companies say a lot that in the case of well-established processes of traditional MNC structures, it is necessary to implement suitable processes and structures for digital transformation.

One of the most important aspects of organizational changes carried out in the company for digital transformation is the application of Agile methodologies in the company. This includes the building of the approach teams where the teams in charge are handed over, including the one responsible for the digital component. In quite typical for large corporations are linear structures in that with divisional features in the form of regional subsidiaries, it is almost impossible to carry

out digital transformation in such conditions. The IT departments of the company are completely separated from all commercial structures. Thus, if the Product owner of a new digital solution tries to manage the process from a similar department, he will simply be able to know what is happening. It will be completely devoid of helicopter view of the process. Therefore, one of the first steps is to make the organizational changes necessary for the work of the subsidiary's team.

The agile campaign meets the creation of separate teams covering the competencies needed for the development and implementation of digital products. New competencies are another factor that is necessary for Russian subsidiaries saleswoman transformation information. In the sense of aspects. First, the company needs technical specialists who will cope with the increased number of ways to create digital tools. In cases where MNC starts building its own development team, the company also needs an interface designer, developers, testers, Dev Ops, and so on. This list also includes the Scrum masters needed to maintain agile processes in the company.

Secondly, the company needs to create new positions with new competencies that will link the digital structure of the company with the existing commercial functions. The peculiarity of such positions of employees is that the existing positions of managers can not cover the needs of the company in digital transformation, so such specialists are extremely effective and necessary.

*“Most often, if a person works his job for a time, it is difficult to retrain. It is difficult to find the time and resources to exclude this person from the operational process of work. For digital projects, we need fairly versatile people who will also be aware of the latest trends in the field of digital tools.”*

To conclude, organizational changes are necessary for their subsidiaries to carry out this transformation and include both the creation of project teams within flexible aviation structures but also the creation of new positions to ensure the company's operation in the current linear and divisional work structures.

### **3.2. Findings discussion**

This part will ask to introduce a discussion of the main findings obtained in the course of empirical research. All this will be done to answer the research questions posed before. The following will describe the theoretical contribution of the work and the practical management conclusions that can be drawn from the results obtained. The limitations of the current work and the opportunities and directions for future research will also be identified.

The conducted empirical research allowed us to obtain insights on the implementation of digital transformation in the Russian subsidiaries of MNC. The results reveal the current position of Russian subsidiaries in global processes in the digital transformation and the management practices that the divisions use to adopt global strategies. Therefore, to achieve the object of research, it is necessary to use the obtained theoretical framework together with the results obtained in practice.

Through literature review we were able to structure the approach to studying the topic by obtaining a framework for empirical research in which the perception of the digital transformation process in Russian subsidiaries, the hierarchical relationship between the headquarters and the subsidiary and sister companies, the features of the Russian market in the context of the digital transformation strategy and management practices used for adaptation were investigated. The obtained theoretical concepts than had to be applied to the process of digital transformation in the Russian subsidiaries of MNC.

In the course of interviews with managers and consultants who are directly involved in digital transformation projects, practical insights were obtained described in Chapter 3. On the basis of it, it was possible to fully answer the research questions posed in the study.

RQ1: What is the global Digital Transformation process in the Russian subsidiaries prospective?

Here we explore that practicing professionals involved in digital transformation projects have a global understanding of the strategic processes taking place in MNC. The resulting formulations of the process almost completely coincide with those formulated in the academic environment. But the most important thing is that among managers and consultants in subsidiaries in Russia there is an understanding that the process of digital transformation affects all segments of the value chain. This is an important aspect showing that the employees of the subsidiaries understand that they are part of the overall strategy of MNC. Of course, the employees of the subsidiaries have no influence on the strategy and thus cannot reliably understand the root causes of the introduction of such digital strategies. But the practical answers obtained also coincide with



the preliminary results showing that the digital transformation strategy is one of the main parts of the strategy of each MNC.

RQ2: What are the Russian subsidiaries' positions in the hierarchy of the global MNC digital transformation process?

Following the chosen framework hierarchical structures in MNC are very important for understanding the process of digital transformation taking place in a subsidiary. Since the process of digital transformation has striking differences from traditional change processes but nevertheless, they also occur in the general hierarchy of decision-making. Indeed, as has been derived from the literature review, standardization is an important factor in the process of digital transformation. The headquarters of an multinational company always strives to achieve such decisions along with this, the employees of the company confirm that the subsidiary is unpleasant and this shows a certain confrontation but nevertheless the subsidiary is forced to comply with the policies of the headquarters but the employees of the subsidiaries also have an unambiguous understanding of the hierarchical position they are in.

However, it has become clear that the Russian subsidiaries also want to become decision makers and have a certain weight in making decisions that directly affect their effectiveness. This is confirmed by the information obtained from the literature review. But the main insight was that managers and consultants believe that a smaller hierarchical division is more effective. This is because the region as a business unit has more influence at the strategic level of MNC while the subsidiaries belonging to the countries (Russia in our study) have more influence on the actions of the region but not on the headquarters directly.

As the interview showed, the process of digital transformation turned out to be more autonomous than the standard policies implemented in the Russian subsidiary. This was due to several factors at once, firstly, it is due to the novelty of the processes and approaches that are used to implement the strategy. Since it is often on these processes that companies switch to an Agile methodology and product approach that distinguishes the transformation process separately from other processes. This also manifests itself in the fact that new positions are created in order to ensure digital transformation process (e.g. digital transformation manager). Thus, together with the restructuring of teams and coordination processes and communication in the subsidiary the two-way communication to higher levels of the MNC hierarchy becomes much more efficient. Another important factor is the use of digital tools. The process of digital transformation is superimposed on a large number of specific processes that should be reflected in digital tools. Therefore, large regional subsidiaries such as Russian are implementing digital tools of local

vendors that are better suited for them. Therefore, the regional subsidiary becomes more autonomous as it becomes responsible for the entire implementation and development process.

RQ3 What is Russian market peculiarities in the scope of the global MNC digital transformation process?

Since this question was very limited in the previous research from the literature review, the insights obtained formed the basis of this work. Since we interviewed managers from various industries, we can make a generalized conclusion about the presence of strong peculiarities that exist in Russia. The selected peculiarities of the Russian market are almost always similar to each other for companies from different industries, however, it is possible to change the strength of the effect of the selected factor. One of the main features is the peculiarities of doing business in Russia which are caused by various market circumstances such as distribution features, . This also includes Russian accounting, which differs from multinational American standards, and as a result, the Russian subsidiary of an multinational company is forced to introduce two accounting systems at the same time. The company is forced to apply new digital tools and processes in order to truly successfully carry out digital transformation. But the main factor that Russian subsidiaries of multinational companies have to face in the process of digital transformation is the peculiarities of national legislation in Russia. All respondents named this as the main challenge in the digital transformation in Russia. First, a subsidiary of an multinational company needs to address data privacy issues. The Russian Federation has one of the strictest legal frameworks, so companies are forced to restructure their policies for implementing digital transformation projects. This is one of the main reasons why Russian subsidiaries use local vendors. Since for storing and processing client data in Russia, it is necessary to use platforms that use Russian based servers. This imposes not only technical difficulties in the development of additional interfaces and coordination of systems but also becomes necessary to adjust the business processes in the company. Also, Russian legislation forces the Russian subsidiary of MNC to implement a completely unique certification system for the market. Many industries face this challenge. This also affects changes in planning systems and in production systems not only if a Russian subsidiary of an multinational company conducts production in Russia but also imports it.

RQ4 What managerial practices of Russian subsidiaries are important in the adoption of the strategic digital transformation initiatives?

To answer this question, we also had to collect a lot of insights without the strong support of literature background. As has been clarified in past questions, MNC's Russian subsidiaries face strong peculiarities of doing business in Russia. Thus, they need to be familiar with local market

features. The first part of the practices is related to the process of adapting the policies that the Russian subsidiary receives from the headquarters. To do this, MNC creates a local project team that repeats the global project team functions but operates at the subsidiary level. This allows the faster communication between teams and departments at different hierarchical levels. Usually this approach is applied when a Russian subsidiary is forced to initiate its product. Then the local project team also performs the role of the production team and is already more immersed in the creation and development process. In addition to this interview, it was clearly established that a very important one needs organizational changes that cannot be ignored. The Russian subsidiary can not make only digitalization but must move to digital transformation including changing the approach to business processes. This includes the applying of an Agile approach to building teams in conventional commercial functions as well as the need to hire new people for positions related to digital change who will have general experience in digital processes. But not to engage current managers. This factor was noted by all interviewees pointing out the large resource and time costs for retraining employees that cannot be implemented during the launch of the transformation process. The interlocutors also noted that such a factor as the full involvement of the management of the regional subsidiary company which should unite all commercial structures in order for the transformation process to be carried out, is very important.

Summing up, we note that the empirical study showed the presence of similar factors in all the surveyed Russian subsidiaries of MNC. They understand the global goals of a global company in digital transformation, but they face challenges related to their current activities in the regional Russian market and are forced to find ways to adapt. Therefore, they try to take the initiative and make those changes that relate to the peculiarities of the Russian market as they see it impossible to use absolutely identical standard procedures. However, global headquarters understand their need for adjustments and established processes for regional adjustments in subsidiaries already exist.

### **3.2.1. Theoretical Contribution**

As a theoretical contribution, this research contributes to the understanding of the digital transformation processes taking place in MNC's Russian subsidiaries and how these processes are related to the structure of an multinational company and the specifics of doing business in Russia. Thus, the main theoretical contribution of the thesis is covering the research gap.

The empirical study confirmed some of the results of the previous authors' general research in the context of digital transformation in Russia. For instance, The MNC headquarters'

commitment to standardization is confirmed which is met with opposition from the Russian subsidiary.

Taking into account the limited research of the topic, in this study, we were able to gain an additional understanding of the transformation processes from the point of view of the Russian subsidiary and explore the challenges that the organization faces in order to successfully carry out digital transformation.

### **3.2.2. Managerial Implications**

Insights obtained in the empirical study using semi-structural interviews allowed us to identify the main factors influencing the process of digital transformation of subsidiaries in Russia.

Practitioners can use the insights gained to better understand the logic behind the organizational difficulties faced by subsidiaries in Russia. In this way, they can predict the emergence of new challenges during the implementation of digital transformation projects in their organizations. And they can also understand the possible development trajectories that may arise when changing organizational structures at the level of the region and the entire company. The cases that were obtained during the interview show what successful management practices were applied in the company in order to simplify and improve the efficiency of implementing digital transformation projects. This data can already be used at a higher management level to better adjust organizational practices for the Russian region.

### **3.2.3. Limitations and future research**

This section contains several limitations that may lead to the future directions of the research.

First, the results of a study showing a Russian subsidiary in the process of transformation. And so in the future, research can expand a sample and, based on the findings of the study data, move on to a more specific quantitative study. This will further confirm the results of the study using statistical tools.

Secondly, it should be noted that the sample chosen in the study was not focused on specific industries, but took into account large multinational companies in general. Because in the context of a limited preliminary study, it was necessary to create a general approach. Thus, having obtained the results of the generalized results, the study can move in the direction of the specifics of each industry would help to more concretize the result. In addition, you can add various specifying factors to the future study: the size of the company, the structure, and so on.

Third, as the next steps, we can note the need to test the results of the study on a subsidiary in other regions. This will complement the existing generalist approach to the process of digital

transformation in subsidiaries from the point of view of the subsidiary. Transformation processors are carried out in many companies globally including in very specific markets for the business of an multinational company. Therefore, the results of the future study may create an additional framework for the needs of multinational companies operating in specific national markets.

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