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ORIFLAME CIS: THE SUCCESSFUL EVOLUTION OF A REGIONAL SUBSIDIARY'S MANDATE

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ORIFLAME CIS: THE SUCCESSFUL EVOLUTION OF A REGIONAL SUBSIDIARY'S MANDATE*

Oriflame CIS, a regional subsidiary of a Swedish beauty and cosmetics company operating in the countries of the former Soviet Union, generated 43 percent of global sales and 62.2 percent of operating profits for the parent company in 2014—despite the fact that markets in Russia and Ukraine were stagnant or declining. Using an attractive remuneration scheme, Oriflame CIS was able to profit from its position as a latecomer to the localization of manufacturing by attracting managers with experience and skills gained from working with the manufacturing arms of other foreign multinationals in Russia. In addition, the firm was also able to enhance links with customers by localizing the process of designing the company's product catalogues. In significantly expanding its mandate, Oriflame CIS was able to overcome the challenges arising from a volatile market, to increase robustness and to maintain profitability of operations.

Keywords: multinational corporations, Russia, subsidiary mandate, foreign direct investments

JEL classification: F21, F23, D24

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In 2014, Oriflame CIS—a subsidiary of Oriflame S.A., a Swedish beauty and cosmetics company operating in the countries of the former Soviet Union—generated 43 percent of the global sales and 62.2 percent of the operating profits for the Oriflame group. Faced with stagnation in key Commonwealth of Independent States (CIS) markets of Russia and Ukraine, the parent company designed and implemented a number of large-scale projects that turned out to be robust adaptation strategies — that is, strategies designed in relatively prosperous times that prove to be particularly effective during lean times. The implementation of those projects expanded the mandate of Oriflame CIS in two core areas of the corporate business: the manufacturing and marketing of beauty and personal care products. Oriflame's experience demonstrates how a subsidiary's mandate can be extended in difficult times to increase the subsidiary's flexibility and enhance its ability to withstand high levels of uncertainty in local markets. Examining the rationale behind enhancing a subsidiary's mandate in adverse market conditions can enrich any multinational firm's repertoire of organizational strategies. Moreover, the experience of Oriflame CIS also illustrates some of the benefits of being a latecomer when delegating particular corporate functions to the regional level.

Understanding the Nuances of Subsidiary Mandates

A subsidiary mandate is a business or element of a business in which the subsidiary participates and for which it has responsibility within or beyond its national market [Birkinshaw, 1996]. A crucial element of any multinational corporation, such mandates evolve to reflect the progress of subsidiary competencies [Palmié et al., 2014], internal competition between sister subsidiaries [Dörrenbächer and Geppert, 2009], the peculiarities of capital allocation, and the delegation of the decision-making authority within firms [Graham et al., 2015]. Over time, many local subsidiaries also assume responsibility for a corporation's business in particular groups of countries [Alfoldi et al., 2012].

Most subsidiaries strive to extend their mandate by developing capabilities and taking responsibility for a larger share of a corporation's activities (see Exhibit 1). In this respect, the experience of Oriflame CIS is instructive. First, it illustrates the typical positive evolution of a subsidiary mandate from a basic (managing sales in a particular market) to an advanced level (regional responsibility for key functions within a corporation). Second, the experience of Oriflame CIS testifies to the fact that a subsidiary mandate can be enhanced even in a negative market. Many executives might view a corporate parent's delegation of greater responsibilities to a subsidiary when sales are declining as an extravagant move. Doing so, however, can actually prove to be a robust adaptive strategy [Beinhocker, 1999].

Exhibit 1. The Stages of Development of a Subsidiary

Stage	Stage 1 – Establishing start-up	Stage 2 – Carrying out basic mandate satisfactorily	Stage 3 – Performing basic mandate in a ‘superior’ way	Stage 4 – Extending basic mandate – low risk moves	Stage 5 – Extending basic mandate – strategic development	Stage 6 – Becoming strategic center for MNC
Type of mandate	Basic Mandate					
				Enhanced Mandate		
						Advanced Mandate
Characteristics	Technology transfer Management by expatriate managers Spoon-feeding Copy exactly	Up and running according to plan Parent quite pleased	Stretch targets set by subsidiary and achieved Verifiably superior to “sister sites” or other benchmarks	Involved in active, low- key pursuits of initiatives Taking on corporate projects	Mandate extended to other value chain activities, openly with parent agreement and budget	Responsibility for key functions within the region

Source: Adapted with modifications from Molloy and Delany (1998).

Oriflame’s Rapid Development on a Global Scale

Founded in Sweden in 1967 by two brothers from the Jochnick family and a friend, Oriflame has a portfolio of approximately 1,000 “Swedish, nature-inspired, innovative” beauty and health products that are sold online and direct in more than 60 countries. In 2014, 24 percent of the company’s sales were of color cosmetics, 23 percent were of skin-care products, 20 percent were of fragrances, 9 percent were of accessories, and 6 percent were of "wellness" products, a relatively new category that covers developments in the food and pharmaceutical industries, such as health foods and diet supplements.

Most Oriflame products are marketed through direct sales. Approximately 3 million registered individual buyers purchase Oriflame products for their own use and for resale through their personal networks. Such buyers, "independent Oriflame consultants," generate annual sales of approximately €1.3 billion using a direct marketing system similar to that used by Avon Products, Mary Kay, and other international direct selling companies.

Despite its relatively modest size compared with the world's largest multinational corporations (MNCs), Oriflame is truly a global company. Its key markets are developing countries (those with a per-capita GDP of less than €22,000). In 2014, 27 percent of its sales were generated in Russia; 25 percent in India, Africa, and China; 21 percent in Europe; 16 percent in the countries of the former Soviet Union except for Russia; and 10 percent in Latin America.

The organizational structure at Oriflame follows the long-established tradition of Swedish multinational corporations as multi-center firms [Forsgren, 1990]. For many years, the parent company was registered in Luxemburg, although in 2015 the group changed the country of registration of the parent company to Switzerland. It has R&D centers in Ireland and Sweden, a financial center in Switzerland, and a group corporate office in Stockholm that hosts global sales, strategic planning, and brand development functions and is home to the board of directors and the executive board. The company manufactures approximately 50 percent of its cosmetics products in-house; it owns production facilities in Poland, Russia, India, and China, and cooperates with contract manufacturers, mainly in the European Union. Finally, Its IT infrastructure, which is supported from India, is hosted on servers in the Czech Republic and Russia. Despite its global reach, Oriflame emphasizes the "Swedishness" of its products and the way it does business, stressing transparency, softness in its approach to human resource management, equality for women, non-aggressive marketing, stability, sustainability, and predictability in its relations with its business partners.

The initial development of Oriflame was spectacular. The company began operations in Sweden and Denmark in 1967, and entered Finland in 1968, Norway in 1969, and the United Kingdom in 1970. Rapid expansion culminated in an initial public offering on the London

Stock Exchange in 1982, and the company has been listed on the NASDAQ OMX Nordic in Stockholm since 2004.

When Eastern Europe opened up to foreign investment in the 1990s, Oriflame was one of the first companies to successfully enter this market. Oriflame's growth there was rapid, and its financial exposure to the former Eastern Bloc countries increased. The company's share price fell after macroeconomic instability shook Russia in 1998, and Oriflame submitted to a leveraged buyout in October 1999 that delisted it from the London Stock Exchange. Led by the founding Jochnick family in partnership with a Swedish private equity firm, the buyout was intended to further develop the company in a private environment [Olve et al., 2003). At the end of 2014, various institutions and individuals related to the founding family owned approximately 27 percent of the shares; institutional investors held most of the remaining shares.

In May 2014, the son of one of the founders was elected to serve as the new chairman of the board. Because of this re-organization, the Luxemburg-registered headquarters of Oriflame Cosmetics S.A. was delisted from the NASDAQ Stockholm Exchange and the new parent company (Oriflame Holdings AG of Switzerland) was listed there in June 2015.

A Look at the Beauty and Personal Care Products Industry

One of the oldest industries in the world, the beauty products industry satisfies two basic human needs: socialization (through appearance) and health (through personal hygiene). The beauty products industry is also large: In 2013, global retail sales of beauty and personal care products reached US$454 billion, more than 2 percent of world retail sales. In the last 20 years, the global beauty and personal care market has grown by an average of 4.5 percent per year. This market has proven both its ability to achieve stable and continuous growth and its capacity for resilience in unfavorable economic conditions.

The global beauty market is divided into five main business segments: skin care, hair care, color (make-up), fragrances, and toiletries. These segments are complementary and, through their diversity, able to satisfy consumers. Beauty products can be subdivided into luxury, premium, and mass production segments, according to brand prestige, price, and reputation. The mass production segment represented 72 percent of total sales in 2010; the luxury and premium segments accounted for the remaining 28 percent.

Since the turn of the century, the cosmetic markets of Brazil, Russia, India, and China (BRIC) have grown rapidly. In 2010, these four countries alone accounted for 21 percent of the global beauty industry. Consequently, most major international cosmetics manufacturers have been focusing on expanding their presence in BRIC nations. Further emerging markets, such as Mexico, Argentina, Indonesia, Thailand, and Turkey, among others, have shown considerable incremental growth.

The industry accommodates a variety of players, including fast-moving consumer goods (FMCG) leaders such as Procter & Gamble and Unilever; influential cosmetics/luxury goods companies such as L'Oréal and Cristian Dior; smaller companies with a global presence, such as Avon Products, Mary Kay, and Oriflame, as well as local players and indigenous brands. These different segments follow their own independent paths. The upper segment of the market for fragrances, cosmetics, skin care products, and accessories is dominated by the fashion industry and uses the same trademarks (Dior, Channel, etc.) across a range of products. Shampoos, toothpastes, and deodorants are part of the traditional FMCG market. For lipsticks, skin care products, and accessories, constantly changing products is the norm, whereas some fragrances may remain constant for decades (such as the iconic Chanel No. 5). For most cosmetic products, basic production technologies are stable but flexible, allowing for constant changes to recipes and packaging and quick adjustments to production facilities to accommodate such changes.

Manufacturing operations comprise a relatively modest share of the total value added, particularly for mid-range and premium products for which most value is added by marketing and sales through assurances to consumers of the unique features and prestige of particular products and trademarks. Even advanced manufacturing operations in the beauty industry are labor and capital intensive, however. In such circumstances, wholly owned manufacturing subsidiaries established overseas mostly perform "market-seeking" and "efficiency-seeking" roles [Dunning, 1992].

Confronting the Challenges of the Russian Beauty and Personal Care Market

In 2014, 27 percent of Oriflame's sales were generated in Russia. The beauty and personal care market in Russia is relatively well developed and sophisticated. In 2014, its overall volume (470 billion rubles or 12.3 billion US dollars) was almost 1.7 percent of the total retail turnover. The competitive landscape of the market for beauty and personal care products is very specific. At first glance, in terms of value it is dominated by such global firms as Procter & Gamble (P&G), Groupe L'Oréal, the Unilever Group, Colgate-Palmolive, and LVMH Moët Hennessy Louis Vuitton. Although Oriflame fits into that group with a total market share of 4.2 percent in 2014, that data should be used with caution. There are numerous local Russian brands, such as Novaua Zarya (fragrances) and Svoboda (skin care), that enjoy very good market penetration rates. Such products are sold across the country along with laundry detergent and small household items in small retail outlets. Therefore, in terms of sales volume, Russian brand owners control almost half the market.

The entire local market for beauty and personal care products in Russia, however, began to stagnate at the end of 2012. The next year, Oriflame's sales in Russia began to decline: from €460 million in 2012 to €418.7 million in 2013 [Oriflame, 2014]. The share of direct sales of beauty and personal care of the total sales of that category also had begun to fall (from 22.1 percent in 2009 to 16.4 percent in 2014). Grocery and specialist health and beauty retailers began to take market share away from direct sales in beauty and personal care. From 2009 to 2014, the decrease in the market share of direct sales in beauty and personal care markets was 13 percent. In 2013, the sales of beauty and personal care products measured in the local currency increased by 2 percent (from 440.5 to 452.6 billion rubles), while consumer inflation was 6.5 percent. Similarly, in 2014, consumer inflation was 11.4 percent while the sales of beauty and personal care products in local currency terms increased by merely 3.7 percent, that signifies the shrinkage of the physical volume of sales.

In November 2014, the local currency began a sharp devaluation against the US dollar and the Euro. As of November 1, 2014, the exchange rate was 41.96 rubles per US dollar, and on December 31, 2014, the rate was 56.26 rubles per US dollar. Thus, although the dynamics of Oriflame's 2014 sales in the local currency were positive, 2014 sales in Russia in Euro terms decreased by 18.3 percent: from €418.7 million to €342.0 million [Oriflame, 2015a]. The average ruble-to-US dollar exchange rate fluctuated throughout 2015 between 50.6 and 66.8 rubles per dollar.

The sharp devaluation of the local currency dealt a serious blow to all consumer markets. Although the increase in consumer prices was not that large (officially recorded inflation was 11.2 percent), inflation met with a stagnation of nominal wages, decreasing real wages during the first nine months of 2015 by 10 percent. Retail sales in October 2015 in Russia were merely 88.3 percent of those in October 2014. The situation was particularly difficult for companies that relied heavily on imports. They either increased prices according to the increase in exchange rates for the US dollar and the Euro and risked rapidly declining sales, or attempted to restrain prices, thus cutting into their margins.

Addressing Market Uncertainty Through Localization of Value-Adding Activities

To address market uncertainty and a declining local currency, Oriflame CIS radically increased the localization of its value-adding activities. On February 18, 2015, the major production site and logistics hub of Oriflame in Russia was officially commissioned; local catalogue design creation (CDC) became operational for CIS countries in the first quarter of 2015. Both moves were the results of long-term projects. The Russian production site and logistics hub project took five years to complete at a cost of more than €150 million; the local CDC was the result of a corporate-wide initiative to decentralize these activities starting in 2011. Both projects became effective at the same time that market conditions severely deteriorated and the company realized the need to significantly decrease its dependence on imports.

Localizing Manufacturing Activities

Localization of manufacturing activities in low-cost countries and/or in major markets is a common strategy for FMCG companies, particularly those in the food industry but also in construction materials, do-it-yourself (DIY) markets, household detergents, and other industries. Starting in1992, foreign MNCs actively expanded their presence in Russia through wholly owned manufacturing subsidiaries. By some estimates, Russia had approximately 1,000 foreign MNC factories with a total output of US$100 billion in 2012 [Gurkov, 2014].

Foreign MNCs used acquisitions, greenfield investments, and especially brownfield investments (purchases of abandoned production sites or idle production facilities) to develop their manufacturing facilities [Gurkov and Filippov, 2013] and combine global manufacturing practices with local industrial management traditions [Gurkov and Kossov, 2014]. Thus, opening a manufacturing facility in Russia was not a unique experience, even for companies in beauty and cosmetics. Avon had opened its Russian plant in 2004, and P&G and Henkel had established their manufacturing facilities in Russia shortly after their entry into the Russian market [Pepper, 2012].

Oriflame opened its first Russian manufacturing operation — a relatively modest facility that produced lipstick — in 2006. An independent contractor operated the plant for the first 18 months, until Oriflame CIS was able to assemble a manufacturing management team, with most of the plant managers coming from the Russian subsidiaries of other foreign FMCG corporations. During a visit to the plant in 2012, the general manager proudly demonstrated various devices and procedures aimed at safeguarding product safety and improving the energy efficiency of the production processes. At the same time, however, he complained that he was unable to implement many other process improvements that were common practice at the global FMCG corporations where he had previously worked.

In planning the installation of a new manufacturing site, Oriflame CIS had to find a team to manage what was to become the parent company's largest production facility. The project was implemented in stages. First, the company opened an inbound logistics warehouse serviced by 110 persons and a fulfillment facility to assemble consultants' individual orders and prepare them for shipment. An independent contractor operates the inbound logistics warehouse; Oriflame runs the assembly facility.

The opening of a new, much larger manufacturing facility made Oriflame's original Russian plant unnecessary. The official announcement of the first plant's closing was made in May 2014, a year before the actual closure. All employees at the old Russian plant were given the these options: to move to a newly erected production facility—sometimes with a promotion—through a special "relocation support package," to wait until the official plant closing date to receive a good severance payment, or to find new employment before the official plant closing date. Almost one-third of the employees agreed to be relocated to the new plant.

The moment of truth for the new plant came in May 2014. The key question was how quickly management could assemble a skeleton crew for the new plant and fill the vacancies for shop managers, quality control lab heads, and other key manufacturing positions. The skeleton staff that was assembled within a month included six persons from the old plant who agreed to move to the new plant and nine newly recruited employees who were given an internship in other Oriflame factories in Sweden and Poland. The internship lasted two months for workers and one month for managers. After the interns had completed their program, all relocated and newly recruited employees were actively involved in installing the equipment in the new plant. Therefore, the employees also had to undergo training with the suppliers of the new equipment. Meanwhile, Oriflame began recruiting for all the remaining vacancies.

The remuneration scheme offered to new employees at the manufacturing and assembly facilities was similar to that of other Russian manufacturing subsidiaries of multinational corporations [Gurkov, forthcoming]. The emphasis was not on the basic salary or monetary benefits, which were set at competitive levels (5 to 15 percent higher than in neighboring plants of indigenous firms), but on additional non-monetary benefits, which included free:

- Lunch during the work shift,
- Medical insurance,
- Life and accident insurance,
- Year-round travel insurance (also applicable for holiday travel), and
- Transportation to and from work.

In addition, managers were entitled to use company cars and received free mobile phones and membership to a local health club. A special attraction for managers was a carefully cultivated “Swedish-like” organizational climate that focused on psychological safety (lack of fear to express the new ideas on performance improvement to colleagues), decision-making by consensus, a short chain of command, attention to skills enhancement and professional growth, and the ability to contact top corporate executives directly for assistance and advice.

Reinforced by a warm organizational climate, the remuneration packaged attracted a good response to the vacancy postings. The pool of applicants for the low-level positions such as dosing and packaging line operators, was more than sufficient. Attracting the next level of workers, the setters of the equipment, proved problematic. The remuneration package, which emphasized social rewards over basic salary and monetary benefits, was not attractive to this category of employees, who were mostly young men with good technical skills. Moving to the higher levels, the pool of applicants expanded again, reaching a peak of nearly 100 applicants for each managerial vacancy. The top position, technical director of the new plant, was filled through an in-company call by an expatriate who had moved to Russia from another Oriflame manufacturing site for a two-year period. His goal was to prepare an alternate, a local executive who could take over the post of technical director. The alternate was successfully recruited before the official plant opening.

In July 2015, a few months after the official opening, 100 percent of the supply of Oriflame CIS's roll-on deodorants, shampoos, bath and shower gels, and lipsticks was secured from the new manufacturing site. The use of the local manufacturing site resulted in significant cost advantages for products previously imported from Oriflame's sister subsidiaries in other countries or from overseas contractors, and provided other tangible benefits. Manufacturing operations were more flexible and demand for inbound logistics storage facilities decreased. Currently, a section of the inbound logistics warehouse is being offered for lease.

The Localization of Product Promotion

Whereas localization of manufacturing is a visible part of Oriflame CIS's value-adding strategy, some activities of almost equal importance are less visible to those outside the firm. This includes the designing of product catalogues.

Despite all the advancements made possible through the Internet, colorful printed catalogues remain the major promotional tool in cosmetics direct sales. Oriflame produces 17 catalogues per year, issued approximately every three weeks. Lead time for a catalogue is approximately five weeks, and the designers work in two streams. One team prepares even-numbered editions (the second, fourth, sixth, etc.); another team prepares odd-numbered editions (the first, third, fifth, etc.). These operational documents draw attention to particular products and product categories and indicate the catalogue price that consultants use to offer their clients a discount.

Designing the catalogues is a complicated exercise. Each one needs to feature a combination of volume-generating products and margin-generating products, aimed at the volume of total sales and the gross operating margin, respectively. In addition, the prices of both volume-generating and margin-generating products should be appealing, or at least comparable to the prices of similar products offered by direct competitors. Each catalogue should also reflect Oriflame's reputation as "the company that never ceases to surprise." Thus, approximately only 20 percent of each catalogue can be devoted to products that were featured in previous catalogues. Some of the featured products are indeed completely new (for a particular regional market or for the entire corporation); others are rotated in and out during the year. Furthermore, for every site in which Oriflame operates, the catalogue should combine local appeal and overall "Swedishness" of the product offerings. In addition to such pricing and merchandizing considerations, each catalogue raises aesthetic and branding issues — for example, which model or celebrity should appear on the cover?

Oriflame CIS's mandate regarding catalogue development was to:

- Own the regional catalogue strategy and the integrated commercial plan, which includes catalogues, recruitment campaigns, and other sales actions;
- Take responsibility for planning and forecasting of catalogues, including pricing and merchandizing;
- Take responsibility for the creative development and production of catalogues;
- Analyze catalogue performance versus strategy/plan;
- Supervise the printing of the catalogues; and
- Develop catalogue distribution principles and forecasting to avoid waste.

Gaining and validating such a mandate was complicated, and involved a process of micro-political strategizing [Dörrenbächer and Geppert, 2009].

First, in 2011, Oriflame started a vertical marketing and sales integration initiative—an in-depth analysis and optimal distribution of responsibility over particular activities in marketing and sales among global, regional, and local management units. The analysis, decision-making, and execution took almost two years and were performed in-house without the support of external management consultants. A part of the analysis entailed deciding to decentralize catalogue design creation (CDC). In 2009, in Oriflame there were four CDC teams – two teams (one for Europe, Middle East and Africa (EMEA), and one team for CIS) were located in Stockholm; one team (for Latin America) was in Chile and one team (for Asia) was in Bangkok. The decision was to create additional CDCs (to split a team EMEA into three -- one for Western Europe, one for Central and Eastern Europe, one for Turkey; to establish a new CDC for Africa and an additional CDC for India) and to relocate the team for CIS from Stockholm to Moscow. Only the team responsible for Western Europe's catalogue remained at corporate headquarters.

In August 2013, a business case for implementing a decentralized CDC scheme was presented to top management. It outlined the economic rationale, risks, time estimates, and human resources needed. The decision to embark on the initiative was made on August 28 and communicated to company's personnel at a meeting between top management and CDC employees at the corporate management headquarters in Stockholm. Before the event, an external expert was recruited to prepare the announcement, including designing the form and content of the message, forecasting possible employee questions, suggesting top management's answers, and even advising top management on body language.

The new framework was implemented quickly. A new CDC was opened in Turkey in the first quarter of 2014; another CDC was launched in Central and Eastern Europe in the fourth quarter of 2014. The new CDC for CIS countries became operational in the first quarter of 2015. A team of 16 persons involved in catalogue development remained in Stockholm as a CDC for Western Europe.

Establishing a CDC for CIS was a success in terms of both content and process, with the first catalogue appearing 15 weeks ahead of schedule. From a content perspective, having a local CDC unit:

- Largely enhanced the pool of photos of both products and the people presenting those products (models) and made the unified base of images available across regional Oriflame's CDCs;
- Resulted in considerable copyright savings;
- Streamlined development, since product photos and model photos were handled by a local company; and,
- Made it possible to customize the catalogues with special local insets featuring local models and products aimed at the regional preferences of Ukraine, Kazakhstan, Georgia, and Mongolia.

From the process point of view, establishing a CDC for CIS went smoothly and facilitated cooperation between CIS marketing teams and CDC teams, leading to more efficient catalogues development, later confirmed by market research studies. The major concern of a manager who headed the project was the people. He wondered how quickly the local Russian employees would master the necessary skills, and become accustomed to the creative routines. Surprisingly, the newly recruited Russian employees (mostly between 20 and 30) demonstrated good ability and eagerness to learn. Of the 20 individuals who were initially recruited, 19 successfully passed the probationary period and one person was promoted within first months.

Practical Implications of the Oriflame CIS Experience

In the first nine months of 2015, Oriflame CIS sales in local currencies decreased by 9 percent. Nonetheless, Oriflame CIS operations remained profitable, and the adjusted operating margin improved because of the localization of value-adding activities —from 7.1 percent in the second quarter of 2015 to 9.2 percent in the third quarter of 2015 [Oriflame, 2015b]. (In the same period, total retail sales in Russia decreased by 8.5 percent and in the Ukraine by 22.3 percent.) Oriflame CIS's experience in localizing several key value-adding activities and thereby expanding its mandate as a subsidiary offers valuable lessons extending beyond the organization's regional or industry boundaries.

First, the company's experience proves that it is possible to launch and be persistent in implementing robust corporate projects—that is, projects that maintain their effectiveness—regardless of deteriorating market conditions. The ability to implement such projects in conditions of high market uncertainty is rooted in capital allocation techniques that go beyond net present value calculations or creating a balanced portfolio of assets. According to Magnus Brännström, the CEO of Oriflame, "gut feel" is among the best ways to make capital allocation decisions in difficult situations [FMCG Conference, 2014]. Recent studies confirm that gut feel is used by half of American CEOs when making important capital allocation decisions, but is less frequently used by non-American CEOs and by non-American chief financial officers [Graham et al., 2015).

Second, this experience demonstrates that it is possible for parent company to allocate greater responsibility to a subsidiary despite a negative sales dynamic. Such an action can occur when the parent firm acknowledges the impact of volatile business conditions in difficult locations that it has dared to enter, and does not blame the subsidiary for all the problems in a particular setting.

Third, the experience of Oriflame CIS also demonstrates some of the advantages that followers may have over pioneers in developing manufacturing facilities in emerging markets. Oriflame profited from its position as a latecomer in developing its Russian manufacturing activities in several ways. For starters, the company was able to attract to its Russian plants managers with valuable experience and skills accumulated from years of working in local manufacturing subsidiaries of other foreign multinationals. Then it was able to assemble an attractive remuneration scheme that not only captured the essence of familiar human resource management systems, but also was embellished with the warmth that characterizes the Swedish organizational climate. Looking ahead, Oriflame is confident now that it is capable to maintain robustness and profitability of operations in CIS despite all uncertainties of business environment.

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