An integrative view on managerial discretion: A study of a Russian firm in transition*

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What are the forces that influence strategic managerial decisions in the context of economic transition? In this paper, we analyse how strategic and governance forces influence the degree of discretion perceived by managers operating in the context of the transition economy of Russia. An exploratory case study provides insights about the managerial decision-making process in a transition economy through the exploration of context-specific factors that shape the perceived degree of managerial discretion. The findings of the paper redefine the concept, indicating the existence of a relationship between strategic and governance forces and their joint influence on managerial discretion. Our results provide a number of practical and theoretical implications for the managerial decision-making process in Eastern Europe.

Welche Kräfte beeinflussen strategische Managemententscheidungen im Kontext wirtschaftlicher Übergangsprozesse? In diesem Artikel analysieren wir den Einfluss strategischer und steuernder Kräfte auf den Ermessenspielraum, der von den Managern, die im Rahmen der russischen Transformationswirtschaft operieren, wahrgenommen wird. Eine explorative Fallstudie liefert Erkenntnisse über den Führungsentscheidungsprozess in einer Transformationswirtschaft, indem kontextspezifischen Faktoren, die den wahrgenommenen Grad des Führungseinflusses gestalten, untersucht werden. Durch die Ergebnisse des Artikels wird das Konzept neu definiert, indem die Existenz eines Zusammenhangs zwischen strategischen und steuernden Kräften und deren gemeinsamen Effekt auf den Führungseinfluss aufgezeigt werden. Unsere Ergebnisse liefern eine Reihe praktischer und theoretischer Implikationen für den Führungsentscheidungsprozess in Osteuropa.

Key words: managerial discretion, strategic management, corporate governance, transition economies, case study, Russia (JEL: L11, P20)

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1. Introduction

The concept of managerial discretion can be defined as a manager's latitude of actions and the latitude of objectives which influence the ability of an organization to adapt to the forces of its external environment (Shen/Cho 2005; Ponomareva 2013). The latitude of actions refers to the number of strategic options available for managers, while the latitude of objectives refers to the extent to which managerial objectives are aligned with the firm's objectives. The twofold definition reflects the presence of two largely independent streams of research on managerial discretion that are taking place within the fields of strategy and governance research.

Although strategy researchers associate the increase of managerial discretion with a higher influence of managers on strategic outcomes for both the good and the bad of their firms (Carpenter/Golden 1997), governance researchers are more concerned with preventing managers from misusing their discretion in organizations (Shleifer/Vishny 1997). These different agendas have led to somewhat conflicting perspectives as to how managerial discretion affects organizational functioning.

Yan, Chong and Mak (2010:521), representing the strategy side, define managerial discretion as 'coherent, rational, unified decisions executed by managers to achieve organizational development'. Results of their study performed in an international joint venture in China suggest that a greater degree of managerial discretion is associated with a larger range of developmental opportunities for a firm. An opposite view on discretion presented by Mayers and Smith (1994) provides evidence that a higher degree of managerial discretion will be associated with higher agency costs for the firm. These two perspectives, evolving independently in the literature, indeed can be seen as complementary to each other. The strategy perspective analysing the concept of managerial discretion in terms of agency benefits such as strategic flexibility may be complemented by the governance view on discretion, which focuses on the transaction costs, recognizing the double-edged sword of the concept of managerial discretion.

In this paper, we attempt to answer the calls of previous researchers to address this discrepancy of perspectives (Shen/Cho 2005; Caza 2012) by providing a theoretical framework as well as an empirical illustration (within the distinct institutional environment of Russian economy) of the concept of managerial discretion. Our theoretical contribution lies in integrating the two previously isolated perspectives by building a conceptual model of managerial discretion. The empirical contribution of the present study lies in an empirical illustration of strategic and governance forces that define the boundaries of managerial discretion in the context of economic transition. As opposed to analysing managerial discretion through a prism of objective proxy-measures, we focus on understanding how managers themselves perceive the factors that shape their discretion.

The structure of the paper is as follows. First, we present a theoretical model of our research. Subsequently follows a review of the literature on managerial discretion within the strategic management and governance perspectives, respectively. Then, an illustrative empirical case is presented, followed by the description and analysis of the main findings, where we elaborate on the integration of the two perspectives and their role in shaping managerial discretion. Conclusions, limitations, and directions for future research complete the paper.

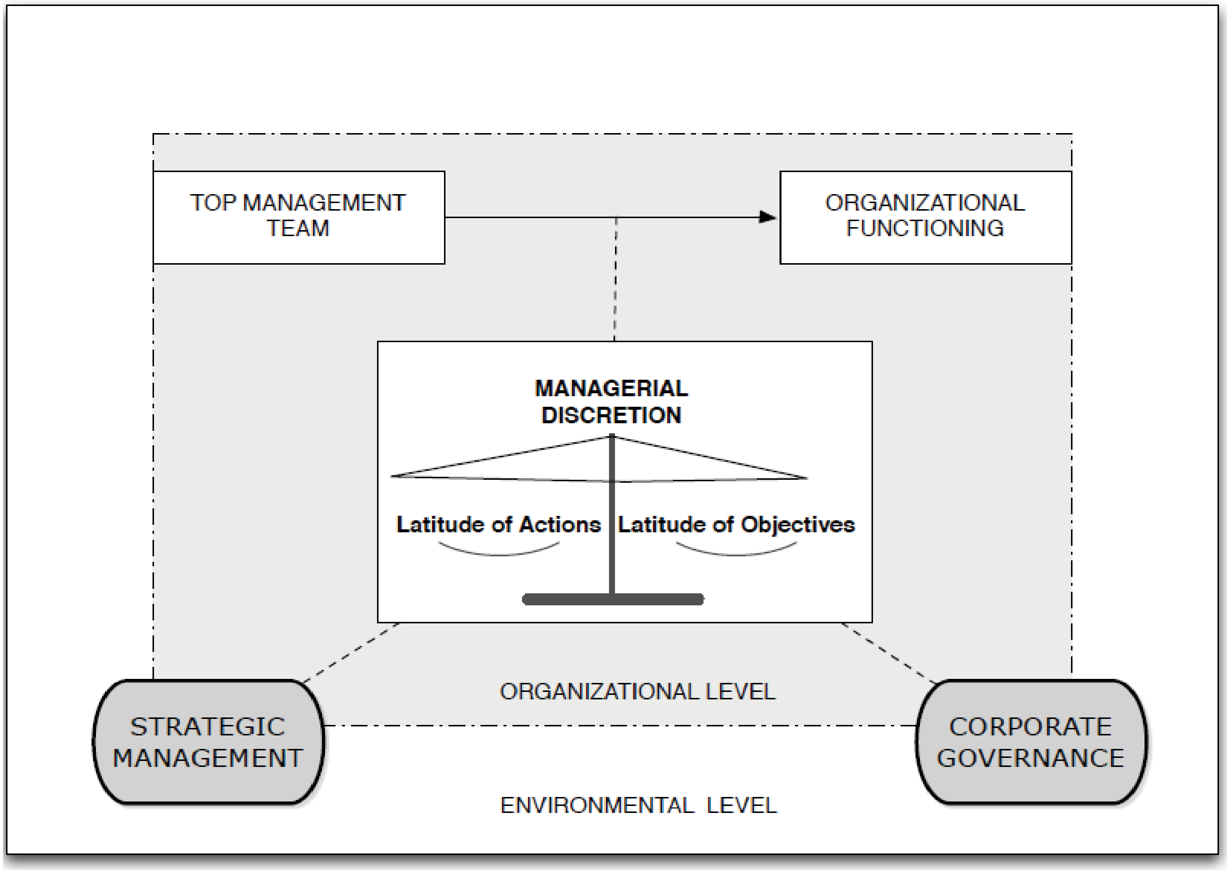
2. Theoretical and conceptual framework

The conceptual model is grounded within an integrative view on the concept of managerial discretion which combines strategic management and corporate governance research perspectives. The strategic management view, which depicts discretion as the latitude of managerial actions is grounded within the upper echelon perspective (Hambrick/Mason 1984). Within this perspective, managerial discretion has been argued to moderate the relationship between top management team (TMT) characteristics and organizational outcomes (Filkenstein/Hambrick 1990; Hambrick 2007), with a primary, positively inclined argument that increasing managerial discretion will strengthen the influence of TMT characteristics on the organizational outcomes.

The corporate governance perspective, grounded within the agency theory of a firm, views managerial discretion through a disciplinary lens (Shleifer/Vishny 1997), referring to it as a latitude of objectives. The agency theory focuses on the potential conflict between owners and managers within a corporation, viewing managerial discretion as a grey area where managers may maximize their own benefits at the expense of shareholders' capital and profit (Jensen/Meckling 1976). A divergence of managerial interests from the interests of a firm may have a bearing on the agency costs for a firm (Lang et al. 1995); thus, an increased degree of managerial discretion is assumed to require closer monitoring (Miller 2011).

Viewing managerial discretion from only one viewpoint may considerably limit its conceptualization. In particular, the strategy perspective does not address the agency costs arising from the misuse of discretion by managers, whereas the governance literature overlooks the strategic opportunities associated with managerial discretion. Through the integration of the two perspectives, we present a more comprehensive view underlining the multifaceted nature of the concept.

Figure 1: Managerial discretion: framework of analysis



2.1 *Strategic perspective on managerial discretion*

The main assumption of strategic management research states that managers are responsible for the strategic development of a firm, that is, for adapting an organization to the forces of the external environment (Chandler 1962). The upper echelons perspective (Hambrick/Mason 1984) has provided a further rationale for why managers matter for the organization, asserting that decisions in a firm are usually made by the top management team rather than by the CEO alone, and the decisions made would reflect the bounds of the team's rationality. The empirical investigation of links between TMT composition and organizational outcomes has revealed largely mixed results, associated with the existing complexity of the relationship (Umans 2013).

An opposing perspective on managers' influence on organizational outcomes is presented by the environmentally deterministic view on organizations, in particular organizational ecology and neo-institutional theory perspectives. The organizational ecology perspective argues that organizations unable to change from within die because of the existence of organizational inertia (Hannan/Freeman 1977). Neo-institutional theorists support that notion, claiming that institutional forces have a profound impact on shaping organizational outcomes (DiMaggio/Powell 1983).

In response to the conflicting arguments in the field, Hambrick and Finkelstein (1987) have suggested the concept of managerial discretion as a theoretical lever to explain the influence of the executive team on a firm's strategic choices. The authors assert that executive influence on organizational outcomes may vary depending on the level of managerial discretion. Their seminal work has laid a foundation for a subsequent body of research exploring managerial influence on organizational outcomes, using managerial discretion as a moderating variable.

2.2 Strategic factors defining managerial discretion

Within the framework of strategic management research, managerial discretion is viewed as an aggregate concept, comprised of multiple determinants at environmental, organizational, and individual levels of analysis (Hambrick/Finkelstein 1987). The task environment level of discretion refers to the macro environment in which the organization is operating. The model proposed by Hambrick and Finkelstein (1987) depicts the environmental factors through the analysis of product differentiability, market growth, industry structure, quasi-legal constraints, and powerful outside forces.

The general assumption is that high rates of product differentiability will provide more opportunities for managers to act upon, thus positively influencing the degree of managerial discretion. A second presumption is that high growth rates of a market may be associated with the increased number of resources and opportunities available within a market as well as an entrepreneurial mode of action. Oligopolistic structures characterized by several main competitors may decrease the degree of managerial discretion in comparison to more competitive industries, where the competition has not consolidated. Subsequently, it is assumed that the heavier the burden of legal requirements, the fewer options managers have in their discretion. Further, the existence of powerful outside forces such as suppliers and buyers may decrease the latitude of actions available for managers.

The organizational level of managerial discretion may be characterized by three main factors: organizational inertia, resource availability, and powerful inside forces. According to Hambrick and Finkelstein (1987), the more inertial forces that exist within an organization, the less is the scope of discretionary power available to managers in that organization. Inertial forces may be represented by hierarchical structure and a strong corporate culture.

The availability of a firm's resources can have a positive influence on the degree of managerial discretion. The literature on organizational slack shows the importance of uncommitted resources for managers to initiate strategic change and development (Bourgeois 1981). Furthermore, Hambrick and Finkelstein (1987) refer to internal political conditions as powerful inside forces shaping the degree of managerial discretion. In support of this, Finkelstein and Hambrick (1990) found that organizations characterized by a high level of managerial discretion show a stronger relationship between TMT tenure and a firm's strategic persistence. This indicates that through time, managerial teams characterized by a high level of discretionary power may have a stronger influence on a firm's strategic development.

2.3 Corporate governance view on managerial discretion

The governance view on managerial discretion focuses on problems arising from the utility maximization motive of individual behaviour in the presence of a separation of management and risk-bearing functions (Fama 1980). Studies focusing on managerial discretion from a governance perspective have largely relied on transaction cost economics (Williamson 1981) and the agency theory of a firm (Jensen/Meckling 1976), emphasising how to align managerial objectives with the objectives of the principal of the firm.

Miller (2011) found that, firms with a strong system of governance are more likely to be present in environments that require a higher degree of managerial discretion. These results suggest that a high degree of managerial discretion needs to be controlled through effectively enforcing a system of governance mechanisms. In support of this argument, Morellec (2004) used the concept of managerial discretion to explain observed financial leverage ratios across firms, showing that low levels of debt financing are due to high levels of managerial discretionary power. This leads to the presumption that managers may use their discretion in order to pursue their private interests of 'empire-building' activities at the expense of shareholders' interests, resulting in agency costs for the firm.

2.3.1 Governance mechanisms

The agency costs due to self-interested behaviour of managers can be mediated effectively by a set of corporate governance mechanisms. These mechanisms are designed to protect investors and to assure that they receive the returns on their profits, simultaneously allowing managers to perform their tasks of running the company in a way that maximizes shareholders' value (Shleifer/Vishny 1997).

According to Shleifer and Vishny (1997), the mechanisms of corporate governance include ownership structure, executive compensation, financial capital structure, and the managerial labour market. Previous research has discussed the roles of the market for corporate control (Manne 1965) and the role of the board of directors (Fama 1980) as monitoring mechanisms of managerial behaviour. Previous research has also shown that ownership structure has a significant influence on a firm's strategic choices (Thomsen/Pedersen 2000). Large block holders are assumed to possess more power that is significant and more opportunities to influence the management team (Moerland 1995). Concentrated ownership structure is seen as a mechanism to limit managerial discretion through increased monitoring of the top managers. On the other hand, the presence of CEO duality, when a single individual serves both as CEO and chair of the board (Rechner/Dalton 1991), can substantially increase managerial discretion, through the consolidation of CEO power (Harrison et al. 1988).

According to the assumption in the managerial labour market, if the manager is no longer performing well, he or she will be replaced by better candidates for the position (Moerland 1995). Consequently, high competition in the market for managerial labour will have a negative effect on managerial discretion because of the constraints associated with future employment opportunities for managers.

According to pecking order theory, the information asymmetry between a firm's investors and managers creates incentives for managers to prefer internal to external financing (Myers/Majluf 1984). Morellec (2004) asserts that managers tend to prefer equity financing to debt financing because of the decreased discretion associated with debt capital structure. According to the agency perspective, debt financing is expected to significantly decrease managerial discretion through limiting free cash flow within the firm (Jensen 1986; Maug 1997).

According to the classic work by Manne (1965), the market for corporate control refers to the competition over control of resources. Well-functioning markets for corporate control are assumed to decrease the degree of managerial discretion because of the threat of seizure of control over a firm's assets by other control groups (Fama 1980; Shleifer/Vishny 1997).

According to Fama (1980), the board of directors represents an institution created to monitor the set of contracts representing a firm. Maug (1997) emphasises the role of independent directors not affiliated with the management of the firm as a mechanism for limiting managerial discretion through the negotiation of contracts. Thus, an active board and the presence of independent directors are assumed to limit the amount of managerial discretion through greater control over managerial decisions.

2.4 Managerial discretion in the context of transition economies

While recent studies indicate a rising interest in and the increasing need for research conducted in novel institutional environments (Barkema/Baum/Mannix 2002; Kirkman/Law 2005), the majority of studies on managerial discretion have been set within the context of stable institutional environments of Western economies (Hambrick 2007). Simultaneously, relatively few researchers have focused on companies operating in more dynamic environments such as emerging markets (Yan et al. 2010). Even less research has been conducted within the sub-category of emerging markets–transition economies.

Transition economies refer to economies undergoing a process of economic transition from a state-planned to an open market economy (Peng 2000). These economies are usually characterized by an ongoing process of institutional change (Hoskisson et al. 2000) as well as by the presence of a high level of institutional uncertainty (Khanna et al. 2005). Institutional changes, in the context of rapid conversion from planned to market economy and as a consequence the institutional uncertainty, often make flexibility and the adaptive capacity of the firm operating in these environments an important characteristic for their survival. On the other hand, such context implies a specific selection of governance mechanisms that exist in transition economies. Consequently, the exploration of the adaptive capacity of the firms and the governance mechanisms in context of economies of transition presents a worthy endeavour of developing management theories and understanding the specificity of the managerial decision-making process within this unique institutional context (Hoskisson et al. 2000).

Previous research has argued that the institutional environment affects the freedom that managers face when undertaking strategic decisions (North 1990; Peng 2003). On one hand, strategic constraints in the forms of market imperfections, institutional voids, lack of capital and managerial expertise impose significant limitations on managerial actions in transition economies. Another important obstacle is the poorly functioning institution of property rights, particularly in the case of the Russian economy (Gans-Morse 2012). The presence of a wide spectrum of political risks highlights the necessity of a better strategic fit of an organization to the context of its external environment, signifying the importance of the strategic flexibility of the firm (Iankova/Katz 2003). On the other hand, the fast pace of economic growth has brought opportunities for firms to capitalize upon what could not be found in developed markets. Increasing participation in the global economy through joining trade organizations along with growing domestic markets has opened new possibilities, challenging firms to compete in a global arena (Hoskisson et al. 2000).

The absence of functioning formal institutions is replaced by a mix of informal institutions (Peng 2003). Despite substantial improvement, problems associated with corporate governance in transition economies remain present, including weak protection of minority shareholder rights and inefficient board structure (Tipuric et al. 2012). The governance system of transition economies can be characterized as relationship-oriented (Babic 2003), where firms rely largely on informal personal contracts, business groups, and networks. Another important characteristic of these economies is the presence of a concentrated ownership structure and relatively small and underdeveloped stock markets (Weimer/Pape 1999).

As argued earlier in this paper, both strategic flexibility and corporate governance are important in the context of transition, therefore the notion of forces that shape managerial discretion can more clearly emerge from this type of environment. Furthermore, the exploration of the concept of managerial discretion in the context of transition economy can bring new insights about the factors influencing the managerial decision-making process relevant for this particular type of environment.

3. Methods

A theory of managerial discretion is currently in its adolescent stage (Caza 2002), lacking a unified definition of the concept. Thus, a qualitative research strategy may be more applicable because it allows for the elaboration of a description and definition of a concept. The qualitative research strategy also gives researchers an opportunity to examine how managers perceive the factors that shape their discretion and compare those observations against the theoretical framework as well as against the objective measures used in previous research. According to Hambrick and Finkelstein (1987), managerial discretion only refers to the spectrum of actions that executives are aware of. Thus, to develop a unified set of objective measures of discretion, it is crucial to acquire an in-depth understanding of the managerial perceptions of factors that determine it. Consequently, it is argued that a single case study could be an applicable research strategy when an investigation concerns highly complex topics with a rudimentary theoretical basis (Eisenhardt 1989; Yin 1994; Dul/Hak 2007).

3.1 Data collection

While the majority of studies in the fields of strategy and governance research focus on large listed corporations, it is the non-listed small and medium-sized enterprises that represent the prevailing majority of business entities in most of the world economies, including those in transition (Cunningham 2011). According to Hofer and Schendel (1978), small firms present a valuable context for studying fundamental managerial tasks. Moreover, governance issues are of immediate concern for smaller firms, since the information asymmetry may be considered as higher, and the roles of the owners and managers may overlap, thus making the separation between ownership and control less clear (Cowling 2003; Brunninge et al. 2007). Bearing this in mind, one may infer that the decision-making process can differ substantially in smaller firms compared to larger ones. Thus, examining how managers make strategic decisions in small companies can contribute not only to knowledge about managerial decision making in organizations but also shed some light on the governance and strategy processes within small-sized enterprises in particular. Furthermore, smaller firms may offer a more dynamic context for studying managerial discretion. They are assumed to possess higher flexibility and ability to adapt faster to market changes such as downsizing due to economic fluctuations (Cowling 2003).

The present case study of Company Alpha was designed according to the procedure described by Yin (1994): first creating the case-study protocol and subsequently conducting semi-structured interviews. Interviewing was chosen as the method for collecting data because it enables greater openness to the object of study (Alvesson/Deetz 2000). Eight semi-structured interviews were conducted with a duration between 30 minutes and 1.5 hours. The interviews took place at the main office of the company within the period of a week. Interviews were conducted with the owner-CEO and top managers of the firm. Prior to the interviews, the participants were approached by e-mails providing details about the research project, assured confidentiality, and offered interview guides upon request. With the consent of study participants, all interviews were audio-recorded and subsequently transcribed.

Other data were collected from several sources, including interviews with managers, internal documents (financial reports, corporate structure, descriptions of the main processes, production norms, etc.). Separate pilot interviews were conducted with two retired executive managers prior to the main interviews with the purpose of testing and redefining the interview guide. After minor modifications, an updated version of the guide was used for each interview (see Appendix A).

3.2 Case description: company alpha

Company Alpha is a closely-held, private, small-sized enterprise situated in Saint Petersburg, Russia. It was established in 1998 by the current owner-CEO. Since 2007, it has been oriented towards rapid expansion through diversification. During 2012, the number of employees more than doubled, reaching a total of 60. The current development of Alpha is directed towards transferring control of the enterprise from the owner to professional managers operating in highly diversified business units. Due to the existing uncertainty of private property rights in Russia, the owner-CEO of the company is not considering selling ownership stakes in Alpha; however, his aim is to reduce his involvement in the management of the company by delegating this role to the top managers.

Alpha has three strategic business units (SBUs): (1) wholesale lighting (55% of sales), (2) retail sales of lighting (10% of sales), and (3) metal construction (35% of sales). The firm is also involved sporadically in independent projects in the construction and real estate industries. The top management team includes three top managers responsible for the SBUs, two managers responsible for planning, an HR manager, a business development manager, a logistics manager, and the owner-CEO. All top managers report directly to the owner-CEO.

4. Findings

The findings of this study are presented here according to the themes that emerged through the study. Each theme is divided into sub-themes as described below. Citations from interviews, translated from Russian to English by the authors, are used to illustrate each of the themes.

4.1 Theme 1: strategic task environment

This theme reveals itself through the driving forces of strategic change. During the last five years, Alpha's top managers have actively monitored its external environment, seeking to capitalize on arising strategic opportunities. Managerial discretion becomes of the highest importance during the process of initiation and execution of strategic change; it is an essential condition for managerial ability to adapt the company to the forces of its external environment (Hambrick/Finkelstein 1987).

Adoption of a highly diversified business model supports the notion of experimentation and exploration of opportunities (Porter 1979). While the lighting and metal construction (MC) SBUs are the main sources of the firm's growth, further diversification prospects are explored on a project-related basis. The process of diversification helps the owner-CEO to mitigate the risks of strategic failures; however, it does not affect the risk of top managers directly responsible for each of the units. Interviews with the TMT revealed that not all projects undertaken succeeded. One example given was an attempt to produce lighting independently which had been closed down because of low returns, indicating that top managers possess sufficient discretion to initiate strategic changes in the firm. The following sub-themes exemplify the role that managerial discretion plays in the process of strategic change.

4.1.1 Product differentiability

Product differentiability in the lighting industry is perceived to be high because of the comparatively fast rotation of the products. The main rotation is made every six months, while minor changes in the product slate are made every quarter. The changes in the product portfolio indicate the ability of managers to execute strategic choices. Managers make changes independently, based on information from customers and suppliers and on personal judgment. According to Hambrick and Finkelstein (1987), high rates of product differentiability will provide more opportunities for managers to act upon, thus positively influencing the degree of managerial discretion.

4.1.2 Market growth

Top managers perceive market growth in the lighting industry as being overall positive but not significant. They attribute the fast growth of the firm's sales primarily to the increase of its market share and penetration of upper market segments, indicating that they see their products and services as highly competitive.

The recent decline in construction business closely linked to the MC segment is not perceived by managers as a strategic constraint because they see opportunities in widening their market share through offering clients a more attractive product portfolio. Apart from that, managers have also indicated that their firm undertakes large investments in facilities and equipment, which serves as an indication that the company is exploiting existing strategic opportunities and exploring new ones.

Market growth have been traditionally associated with the enhancement of managerial discretion Hambrick and Finkelstein (1987) due to the increasing number of resources and opportunities available within a market as well as with an entrepreneurial mode of action (Mintzberg 1973). The present case might indicate that even in the absence of high market growth, the opportunity to increase the firm's share of the market widens the scope of strategic choices, positively influencing the degree of perceived managerial discretion, while the comparatively narrow market size serves as a significant limitation of perceived managerial discretion.

4.1.3 Demand instability

The demand for Alpha's products is perceived by top managers as stable with strong seasonality trends present in both lighting and MC segments. The seasonality trends are opposite in the two segments, mitigating the risks by allowing the company to sustain its performance throughout the year. Strong seasonal demand also indicates a high dynamism of the market, thereby creating strategic opportunities. The increased scope of strategic opportunities, in turn, signifies existing managerial discretion (Hambrick/Finkelstein 1987).

4.1.4 Industry structure

Top managers perceive the lighting industry overall as highly competitive, referring to product rotation, a wide product portfolio, and the quality of products as their main competitive advantages. They indicate that they are aware of the competition and are constantly working on improving their operations, looking for new opportunities on the market. Hambrick and Finkelstein (1987) observe that more competitive industries are expected to be more open to innovative moves and non-standard strategic decisions. Operating in a highly competitive milieu and being aware of existing competition signal the presence of managerial discretion in Alpha's TMT.

4.1.5 Quasi-legal constraints

The state bureaucracy is also been identified by managers as an unwanted constraint to the implementation of strategic decisions. In addition, the very idea of being involved in legal cases is perceived as a long-lasting process that may require both time and financial resources. On the other hand, the company has developed its own way to avoid it to a large extent:

> *Planning department manager: 'We have such a bureaucracy thing; the bureaucracy [is] easily avoidable… If you pay ten times more, you're not going to the committees; other people will do it for you'.*

The presence of middle agents that deal with governmental authorities allows the company to minimize the time spent on obtaining necessary permits. This comes at a cost, however: the heavier the burden of legal requirements, the more limited the scope of managerial actions. The effect of such limitations is mitigated by managers through contracting with third parties to overcome the bureaucratic burden.

4.1.6 Powerful outside forces

The main challenge, according to the interviews with managers and as indicated by the owner-CEO of the firm, is associated with the relationships of the firm with its business partners. In particular, the strict terms of the contract with the main customer in the lighting segment (a retail chain) is a concern for managers.

The credit term offered by the wholesaler to Alpha is 60 days. In addition to that, the retail chain has a fixed purchase price. Sometimes changes in the supplier's conditions such as an increase in purchase price may be included in the contract with the retail chain only three months after the change is implemented. Such restrictions constrict the company to the condition of the retail chain, increasing the risks associated with breaking the contract. Maintaining the contract with the retail chain even during periods of loss is a priority for the managers.

A different dynamic can be observed in the relationship between Alpha and its main supplier. A long-term contract and developed mutual trust allow Alpha to base its competitive advantage on the close relationship with its supplier. Alpha views the supplier more as a business partner and is engaged actively in promoting the supplier's brand within the region. This, in turn, provides a larger number of strategic options and therefore has a positive influence on the degree of perceived managerial discretion.

Hambrick and Finkelstein (1987) hypothesize that the influence of powerful outside forces limits the degree of managerial discretion. In particular, the Alpha case demonstrates the influence of the main buyer as a significant limitation of managerial discretionary power, whereas the long-term contract with the supplier serves as a positive enhancement of it.

4.1.7 Experiencing transition

The interviews revealed the experience of the managers' task environment to be closely related to the context of economic transition. The specificity of transition economies was associated with poorly functioning formal institutions. Unclear jurisdiction and the need for extensive paperwork for obtaining necessary permits were seen as important elements of the context in which managers make their decisions.

Alpha's contracts with the main supplier and retail chain are complex and must be followed precisely. In order to sustain existing contracts, however, they need to be supported by interpersonal trust. Trust appeared to be important aspect for the interviewees. In particular, the word 'trust' was mentioned in relation to discretion and delegation. Trust was seen mainly as a consequence of the formal relationship and not vice versa. Managers indicated that in the relationship with their business partners, they relied primarily on the formal contracts, but trust was an important part that developed through time. Despite the formal agreement, engagement in a legal dispute could be rather costly for the company and therefore the developed trust serves as a guarantee against the unplanned costs of breaking the legal contracts.

The appearance of the concept of trust during the interviews with the top managers may be attributed to the role of trust as a complementary mechanism to enforce formal contracts (Poppo/Zenger 2002). Countries undergoing the transition process rely on both formal and informal institutions in their transactions (Peng 2003). The change of institutional settings is associated with a great degree of uncertainty, both creating opportunities but also hindering strategic development. Managers have a larger variety of choices when it comes to the enforcement of their contracts with business partners. This may indicate the enhancement of their discretion. On the other hand, reliance on informal institutions such as personal contracts undermined high initial costs (Peng 2003). Thus, managerial discretion can be enhanced by the use of personal relations, but the associated costs create a considerable hindrance to it.

4.2 Theme 2: internal organizational environment

This theme reveals itself through the managers' and owner's perceptions of the internal environment of a firm. Similar to Theme 1, the growth process has an important impact on perceived managerial discretion at the organizational level of analysis. The three central sub-themes present strategic forces that shape the degree of managerial discretion at the organizational level of analysis, including inertial forces, the availability of resources, and powerful inside forces.

4.2.1 Inertial forces

From the interviews it appeared that the final formulation of strategic goals is the sole responsibility of the owner-CEO. However, the TMT has a substantial influence on the execution of the firm's strategy, and top managers are encouraged to provide suggestions regarding strategic decisions. Before the final approval, all strategic decisions are discussed at TMT meetings:

> *From an interview with the owner: 'When the team gets together, I'm saying to all my [employees] that we [are] like-minded, we are a team, we have to think in the same direction. Well, it's not just a matter of "all repeat after me ... ."'*

This quotation indicates the peculiarities of the decision-making process within the firm. The decision-making process appears to be team-based. Instead of separating the SBUs and managers responsible for strategy execution based on the business divisions, the strategic decisions are made in a team, which in turn may facilitate information flow, increase the participation of managers in the firm's decisions, and positively influence the degree of managerial discretion. On the other hand, this may indicate a strong socialization process, which leads to the creation of an increasingly homogeneous TMT. During the interviews, all managers and the owner-CEO were asked questions about the firm's external environment. A consensus among top managers regarding the perceived discretion deriving from the firm's external environment indicates the presence of a strong culture and team cohesiveness. Managers are expected to act within the norms; acting against them may significantly limit the degree of perceived managerial discretion.

The culture of the company is perceived as being open to change. Indeed, change at Alpha is perceived as an ongoing process rather than a temporary event. Thus, the embeddedness of change in organizational functioning outlines the opportunities for managers to execute their discretionary power.

Simultaneously, the rapid process of organizational growth makes it more difficult to monitor the current state of the company; therefore, increasing the formalization of the main processes and the development of the internal control system are discussed in the TMT meetings. This draws attention to two processes: increasing managerial discretion because of a larger scope of activities of top managers and increasing control over managerial behaviour. Although the scope of opportunities available for managers is increasing, the formalization of processes may have a negative impact on managerial discretion. Currently, the planning department is developing a system of performance indicators according to which top managers will be evaluated for the performance of their department. This implies that the firm's fast growth is positively influencing managerial discretion, through providing more strategic opportunities. On the other hand, the increasing discretion is coming at the cost of a higher level of monitoring of managerial performance.

4.2.2 Resource availability

All of the interviewees indicated that that resources can be relatively easily obtained by managers if they are oriented to the strategic development of the firm. The resources include mainly human (the company is actively hiring new employees) as well as some financial (loans for purchases of new equipment). The use of the resources is closely linked to the agenda of growth. If top managers show evidence that resources will be efficiently used to enhance the firm's growth, it becomes very likely that that they will obtain them. Simultaneously, the owner-CEO has a cash-free policy; thus all monetary transactions are credited. This indicates the presence of strong control over the use of financial resources.This is in line with previous studies stating that the availability of resources increases the scope of decision-making opportunities for managers (Adner/Helfat 2003; Hambrick/Finkelstein 1987). In the case of Alpha, it may be inferred that the firm's growth positively influences the degree of managerial discretion in relation to the allocation of resources.

4.2.3 Powerful inside forces

It appears from the interviews that several power coalitions are present within the company. In particular, the planning department creates an impression of being more informed about corporate strategic objectives than the managers of the three SBUs were. Their reflections about corporate strategy are more long-term oriented, whereas the SBU managers are more focused on the daily operations of their departments. The planning department managers also work closely with monitoring Alpha's financial situation, whereas department managers do not have detailed information about the financial situation and investment decisions within the firm.

This observation falls in line with the planning school of strategy (Shuman et al. 1985), which argues that the planning department has an increased influence on the firm's strategic decisions during the stage of active growth. Knowledge about the firm's processes and financial standing can be interpreted as one of the sources of managerial discretion. This, in turn, provides indications of differences arising in the degree of perceived discretion among the departments within the firm.

4.3 Theme 3: influence of governance

This third theme reveals how managers and the owner define the boundaries of managerial discretion as well as the costs of exceeding it. Because of the specificity of the Russian context, attributed mainly to the presence of institutional voids (McCarthy/Puffer 2013), not all of the governance mechanisms were revealed during the interviews as important factors influencing managerial decision making and discretionary limits. In particular, the influence of the board of directors, the external audit, and the market for corporate control were not perceived by the interviewees as important factors influencing the scope of managerial discretion. Because of its relatively small size and high concentration of ownership, Alpha does not have a board of directors. The firm outsources its accounting and its audit; thus, top managers could not provide any information regarding them. The poorly functioning formal institutions of corporate governance in Russia have hindered the development of an effective market for corporate control. No indications of the potential influence of this mechanism were revealed during the interviews.

4.3.1 Ownership concentration

The governance of Alpha is context-specific. Insider ownership constitutes the prevailing ownership structure among Russian firms (Wright et al. 2003). The duality of the owner-CEO position at Alpha may be associated with the unity of command, on the one hand, leading to the enhancement of managerial discretion of the owner-CEO, but may also lead to a decrease in the discretion of top managers. In the context of the poorly functioning institutions of private property, ownership concentration becomes of increasing importance as a control mechanism monitoring the disciplining of managerial behaviour (La Porta et al. 1998):

> *From the interview with the owner-CEO: 'I define the scope of competence, and within [this] competence a person has the right to undertake decisions. Accordingly, when it is within his [her] competence, the person shares responsibility with me equally. I delegate it to him [her]. If a person exceeds it when undertaking decisions and thereby some costs are obtained, these costs he [she] should cover himself [herself]'.*

This quotation indicates that the owner-CEO perceives himself as the key shaper of managerial discretion. He is also aware of the limits of discretion that he assigns to the managers. The increase of managerial discretion needed to execute strategic change within the company comes together with an increasing cost of higher responsibility for managers. In addition to that, business risks assumed by managers are shared between the owner-CEO and the responsible top manager.

4.3.2 Market for managerial labour

Several interviewees mentioned that reputation plays an important role for managers. All of the interviewed top managers were 'headhunted' by the company from their competitors or business partners (suppliers, retail chains).

The context of economic transition implies certain specificities. First, a very limited number of professionals have the necessary skills and education to manage companies effectively. The majority of current managers received their education and work experience during the planned economy and thus lack the experience of working in a market economy. Second, the current number of professional executives cannot be absorbed by the market because of high salary demands. This context may serve as a strong inducement for managers to perform because 'headhunting' by another company often implies a substantial raise in compensation. Looking for employment independently may compromise the salary demands for the managers. On the other hand, 'headhunting' may serve as an indication of governance, through selecting highly competent professionals within a business sector. Consequently, it can be assumed that the asymmetry of the managerial labour market may have a negative influence on the perceived degree of managerial discretion.

4.3.3 Capital structure

Alpha uses different sources for financing its business development. The initial capital investment was made from the owner's personal capital, while later the company increased its share of borrowed capital. According to Devyataeva (2013), a collateral loan for small- and medium-sized enterprises in Russia can be obtained at a 20–25% interest rate. Yet most of Alpha's capital investments are financed by bank loans. The decision to borrow capital was made by the owner mainly because of the favourable conditions negotiated with the bank and, second, as an indirect attempt to discipline managerial behaviour. According to the owner, the use of credit disciplines managers, making them more conscious and transparent about the use of the capital. Consequently, the preference towards the use of the borrowed capital indicates the negative influence on the scope of perceived discretion by the top managers.

4.3.4 Managerial compensation

The top managers claimed that their salaries are higher than market salary. This may serve as in indication of increased discretion because they are expected to make more decisions in the company during the growth process. Higher level of compensation can be a leverage of risk undertaken throughout the decision-making process. Prior studies have shown that executive compensation in lower-discretion industries tends to be lower, whereas a higher level of executive compensation is attributed to higher-discretion industries attributing it to the ability of managers to influence firm outcomes (Finkelstein/Boyd 1998). The small size of the company implies that managers may have a less defined task spectrum and a wide array of responsibilities; a higher level of compensation thus may serve as a mediator of the increased risks.

4.3.5 Emerged differences in perceived managerial discretion

When it comes to the perception of factors that may limit the degree of managerial discretion, striking differences were observed in the perceptions of environmental influences between the managers and the owner-CEO. In particular, management perceived factors such as quasi-legal constraints and the firm's relationship with its main client as being constraints to the firm's strategic flexibility:

> *From an interview with the planning department manager: 'The agreement [with the main retail chain] is very serious and not flexible, and, well, it was signed [a] long time ago and for any changes of the conditions, sometimes it takes almost half a year ... In this regard, we are very vulnerable ... seriously'.*

In contrast, the owner-CEO perceived it as an opportunity to improve the internal efficiency of the firm.

> *From an interview with the owner: 'It organizes, it makes you think, it makes you move, and we are doing this. So I do not see the problem here'.*

The strict conditions of agreement with the main retail customer force the company to improve the efficiency of its internal processes. The high interest rate makes managers more conscious about how they use available resources. This may be interpreted as a balancing act. With the uncertain external environment, increased control and discipline are needed for the firm to sustain these challenges. The external challenges are hard to manage for a small-sized company like Alpha. However, it is comparatively easy to implement internal changes that help the firm adapt. This can be considered as a factor limiting managerial discretion and increasing the transparency and control available to the owner of the firm. While realizing the challenges coming from the external task environment, the owner views these as an advantages in aligning these interests with those of the firm's managers.

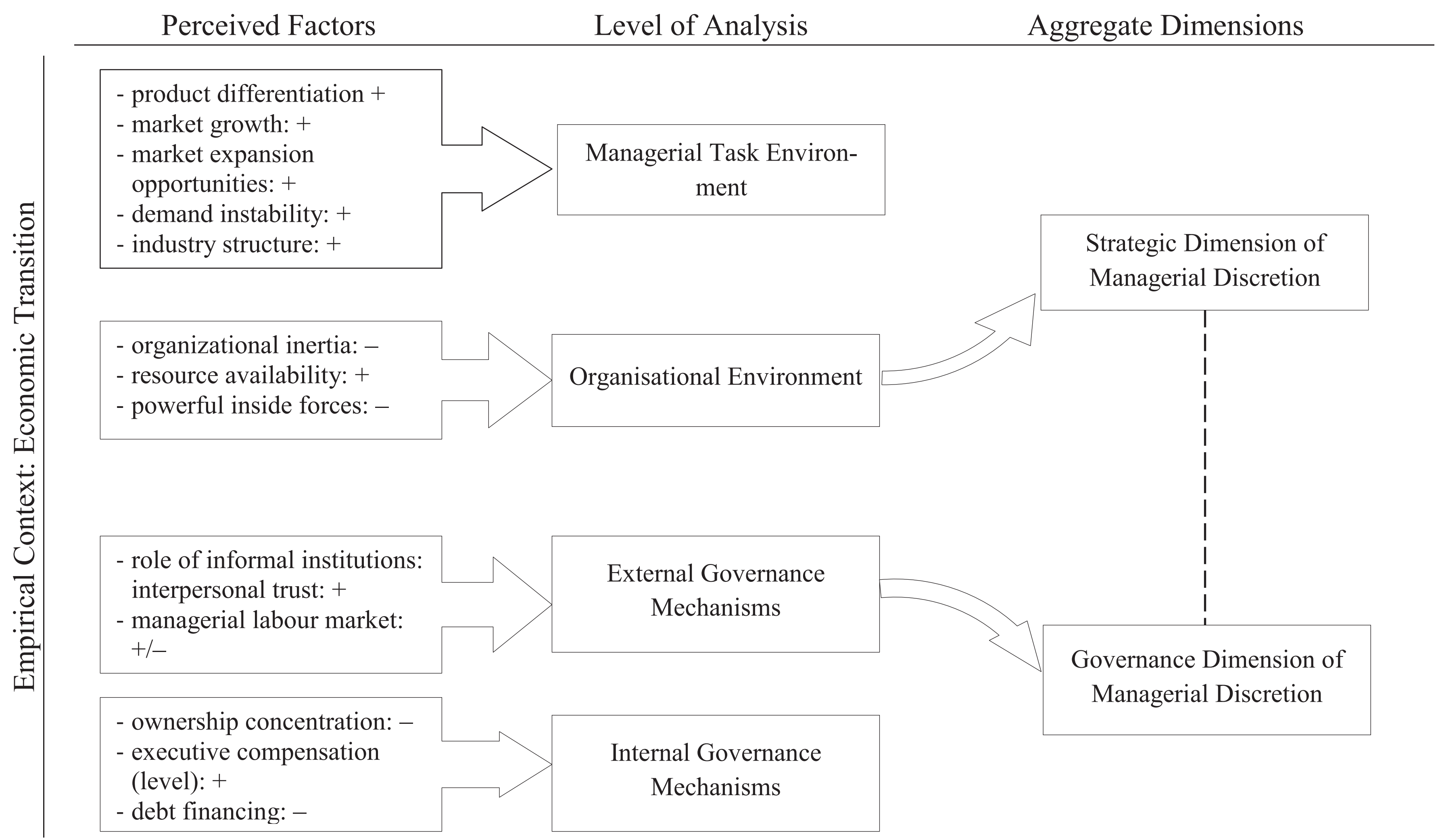
5. Summary of empirical findings

The model in Figure 2 summarizes the key findings of the study. It depicts factors that shape the degree of discretion perceived by the managers at Alpha; the factors are grouped into two levels of analysis: external environmental and internal organizational levels and subsequently congregated into strategic and governance dimensions of managerial discretion. It is important to highlight that factors appear to be context-specific.

Strategic forces derive from the managers' task environment as well as from the organizational environment. At the task environment level of analysis, factors including product differentiation, market growth, market explanation opportunities, demand instability, and industry competition were seen as positively influencing the degree of perceived managerial discretion. The present study aimed at exploring managerial perception of factors that determine their discretion. While the majority of earlier suggested factors were perceptive as being important in the decision-making process by managers, some new factors appeared as important. Managerial perceptions largely depend on the context of the firm. Transition economies, characterized by the presence of both formal and informal institutions present an environment where informal ties of the manager constitute an important factor determining their discretionary power.

When it comes to the forces within the managerial task environment, it is important to note that while market growth was considered to be relatively low, market expansion opportunities were seen as an important factor that considerably enhanced the scope of strategic managerial choices. On the other hand, quasi-legal constraints and powerful inside forces, manifested primarily by suppliers and main customers of Alpha, were viewed as negative influences on the degree of discretion perceived by managers. At the organizational level, managers perceived organizational inertia and powerful inside forces as negatively influencing the degree of managerial discretion, while access to resources was viewed as an important factor enhancing it.

Figure 2: Forces shaping the degree of perceived managerial discretion at Alpha



External governance factors were closely related to the institutional environment of transition. In particular, the role of informal institutions such as interpersonal trust was seen as an important factor positively influencing the degree of managerial discretion. The managerial labour market was perceived as having both positive and negative influence on the level of discretion by managers. On one hand, the shortage of qualified managers was a positive influence, while high salary demands that could not be met by firms were viewed as a negative influence on the level of perceived discretion. The internal mechanisms of corporate governance included the level of managerial compensation, ownership concentration and the choice of capital financing. The level of managerial compensation was also viewed as an influential factor enhancing managerial discretion. In particular, higher level of salary was associated with greater discretion as a compensation for the risk undertaken in decision making. On the other hand, the presence of a strong owner as well as debt financing were perceived as factors that discipline managerial behaviour through limiting the scope of their actions.

6. Discussion and conclusions

This study provided insights about factors that shape managerial discretion in the context of economic transition. The study identified several factors that may affect the scope of perceived managerial discretion among the top managers of a small-sized firm operating in the Russian economy. At the environmental level, it was revealed that factors including product differentiation, market growth, demand instability, industry structure, quasi-legal constraints, and the power of suppliers and buyers might affect the scope of strategic opportunities recognized by managers. In addition, context-specific environmental factors such as the role of informal institutions, and trust in particular, were identified as additional factors influencing the degree of managerial discretion. Internal organizational factors such as the perceived degree of organizational inertia, resource availability, and perceived differences in discretion among organizational groups were seen as important determinants of the perceived level of managerial discretion. The role of governance structure appeared also as an important determinant of the perceived degree of managerial discretion. In particular, governance mechanisms including ownership concentration, the managerial labour market, the level of executive compensation, and the firm's financial capital structure were revealed as important determinants of the perceived degree of managerial discretion.

This paper contributes to the development of the literature on managerial discretion in several ways. First, the study contributes to the advancement of a theory of managerial discretion by providing an integrative perspective on the concept. In contrast to previous research, where the majority of studies used the concept to study other organizational outcomes (Finkelstein/Hambrick 1990; Li/Tang 2010) and based on the objective quantitative measurements of managerial discretion, this research focused on exploring the multifaceted nature of the concept of managerial discretion through examining individual perceptions of managers. Our results indicate that managerial discretion can be revealed as a combination of forces of strategic flexibility and governance forces directed towards the disciplining of managerial behaviour. This case study presents an in-depth illustrative description of forces that managers see as important determinants of the level of their discretion. The findings of this paper resonate well with previous research combining multiple perspectives to study managerial discretion (Shen/Cho 2005; Finkelstein/Peteraf 2007).

Second, the paper advances existing knowledge on the concept of managerial discretion by exploring the interdependence between strategic and governance forces. In particular, our data indicate that governance may impact the scope of recognized strategic opportunities. As an example, concentrated ownership combined with the CEO role makes the owner a single threshold determining the nature of corporate strategy, thus limiting the ability of the firm to adapt to the forces of its external environment. On the other hand, we can also observe that the nature of strategic opportunities influences governance structure. As an example, the strict conditions of the contract with the main buyer are perceived as a disciplinary mechanism for managerial behaviour. They increase transparency and improve monitoring.

Third, the present research has provided an empirical illustration and a refinement of the spectrum of forces that shape the degree of managerial discretion. The mixture of forces is context-specific because the study was carried out on a company operating within the process of economic transition. The specificity of the Russian business context allowed us to differentiate between formal and informal governance mechanisms, thus contributing to the literature arguing for their complementarity (Poppo/Zenger 2002). In line with Peng's (2003) propositions, the study revealed both formal and informal contracts to provide the structure of economic transactions within and outside the firm. Interpersonal trust was seen as an important guarantee that strengthens the legitimacy of formal contracts. Moreover, the findings indicate that in environments characterized by economic transition, governance forces are rather context-specific. In particular, the results indicated that external instruments of corporate governance such as market for managerial labour or market for corporate control might not be fully functioning, while internal organizational mechanisms such as ownership concentration may be more relevant for managers in defining their discretionary level. These findings indicate that the array of factors that define managerial discretion may depend on the context where managers operate. The concept of managerial discretion originated in the Western context; but when applied in the context of transition, it becomes apparent that both formal and informal institutions need to be considered when defining the boundaries of managerial discretion.

The present study has contributed to the operational definition of powerful forces. In particular, it has illustrated how the relationships of a firm with its buyers and suppliers affect the degree of perceived managerial discretion. Previous research has often omitted these factors as a potential influence on managerial discretion because of the somewhat vague description provided in the initial model proposed by Hambrick and Finkelstein (1987).

Our study has several limitations. First the concept of managerial discretion was explored in the case of a single firm, which excludes the possibility of generalizing findings to other firms. The empirical study was conducted in the distinct institutional environment of a particular stage of economic transition. Thus, it would be interesting to explore the application of the present conceptual model to different stages of economic transition in order to capture the dynamic nature of managerial discretion (Finkelstein/Peteraf 2007). Our study analyses managerial discretion at a particular moment within a firm. It would be interesting to analyse the dynamic of managerial discretion through time. Longitudinal studies of managerial discretion could be a fruitful endeavour for future research.

This study outlines several interesting directions for future research. The applicability of the model may be explored further by applying it to various institutional environments. Exploration of the interrelationships between strategic and governance forces of discretion may be explored further in empirical research. More research on the larger samples of companies varying in industries and sizes may serve as a worthy endeavour for developing and testing theories of managerial discretion. Using an integrative approach to measure managerial discretion may contribute towards further refinement of operationalization of the concept.

This study has also a number of managerial implications. First, by illuminating the forces shaping managerial discretion, the study provides for both managers and owners of firms in the context of economies in transition an understanding of how internal and external forces in interaction create the limits of managerial actions. In particular, it is important to stress the existence of the double-edged sword of managerial discretion. While for managers the scope of strategic actions can be of the most importance, owners may find the governance forces to be important in order to assure that their interests are aligned with managerial actions. Second, the findings of this paper could be useful to the owners of established and potential new entrants into the Russian market, showing how governance structures and strategic factors might hinder or enhance strategic flexibility of the firm, illuminated through the prism of managerial discretion. This implies that owners may face a choice between providing the managers with high level of discretion necessary to adapt to a fast-changing environment and by imposing governance mechanisms that are aimed at limiting opportunistic behaviour by managers. Third, results of the study could be useful to managers of firms that find themselves in economies in transition, in understanding the expectations imposed on them by governance and strategy factors, as well as providing some answers as to how their individual perceptions of managerial discretion might collide with ones imposed by the organizational and external organizational factors.

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Appendix

Appendix A: questionnaire used to guide interviews with managers.

1. General questions

Warming up

- Please tell me about yourself and your career. When and from which position did you start working in the company?
- Could you please tell me a short history of the company. How was it established?

2. Strategy-related environmental factors

2.1 Intro/macro environment perception and experiences

2.1.1 General macro environment questions

- Please describe what characterizes doing business in Russia? What makes it hard/easy?
- How would you describe the environment your firm operates in? What are the important factors that you as a manager should consider when making decisions/planning?

2.1.2 Macro environment through PESTLE

- How would you characterize the *political* situation in the country? Which political factors in your opinion are the most important to consider when you make decisions in the company?
- How would you characterize the *economic* environment of Russian business? Which economic factors in your opinion are the most important to consider when you make decisions in the company?
- How would you characterize the *social* environment of Russian business? Which economic factors do you consider as important for your decisions as a manager?
- What are important *technological* economic factors that influence your decisions as a manager
- Legal factors were explored in section 2.4.1.
- What are important *environmental* factors that influence your decisions as manager? (for example, regulations regarding environment, pollution, etc.)

2.2 Industry level environment

2.2.1 Industry competition

Porter (1979) Five Forces Analysis:

- Buyers: Who are the main buyers of your product? Please describe them.
- Suppliers: Who are your main suppliers? How long have you been working with them? How difficult/easy is it to change suppliers? How difficult or easy is it for the buyers to change partners they are working with?
- Barriers of entry: How difficult/easy is it to establish a business in your industry? How difficult/easy is it to liquidate a business in your industry?
- Threats of substitutes: What are the alternatives choices your customers have to buying your product/service?
- Competitive rivalry: Who are your main competitors? Please describe the overall competition within the industry.

2.2.2 Product differentiability

How often are your products/services changed/updated?

2.2.3 Market growth

- Which industry/industries do you compete in? How fast in your opinion does the market grow in each of the industries? How stable is the growth/decline? If you have such information, compare the industry(ies) growth you are operating in to other industries.
- What is the demand for your products/services? Is it seasonal? How is demand for your products changing through time? What influences the changes?
- What are the forces of influence within the industry(ies) you are operating in do you take into consideration in your decisions as a manager? Which actors on the market you consider as the most influential? Please provide some examples.

2.3 Macro environment (specific forces for economies in transition)

2.3.1 Quasi-legal constraints and facilitators

- In your opinion, what is the amount of regulations and laws that constrain your actions as a manager of the firm? (many/few) How important is it to follow them? How easy is to avoid them (for you personally and for the managers of other companies)?
- Are there any regulations that give your firm an advantage compared to other firms (laws oriented towards competitors)?

2.3.2 Powerful external forces

- How does your company interact with the governmental authorities? How do you personally interact with the governmental authorities? Which level of authority: municipal or national? Provide some exemplary situations where you as a manager had to communicate with the state authorities.
- How important are informal connections (*svyazi*) in your business? How do maintain your networks? How do you establish new ones?
- Are there any other influential actors that you acknowledge as a manager and also your company functioning in the process of adoption strategically important decision?

3. Organizational factors

3.1 Inertial forces

- Please provide an example of an important strategic decision which could lead (or has led) to radical changes in your company? How hard/easy would it be / was it to implement? Why?

(In case one received short answers, the follow-up questions will elaborate on the following):

- Hierarchical structure: How many organizational levels are involved in creating and implementing important strategic decisions? How are decisions made in your company?
- Organizational culture: Please describe the existing culture/climate within your organization. How would you describe the existing attitudes towards change within the firm? Is it hard to bring change in the existing routines within the company? Why?
- Size of the firm. How many employees does your firm have? (Optional: Please compare the company with the competitors (turnover and assets)).
- Age of the firm? When was the company established?

3.2 Resource availability

- Referring to the previous question: In situations when you are implementing significant changes within the company, what kind of resources you would need for a successful implementation of the decision? What difficulties may you face in obtaining these resources? Why?
- What type of resources do you consider to be of importance in the achievements of your goals as a manager of a company? Why?
  Examples: Financial, human, strategic (support from influential groups).

3.3 Powerful inside forces

3.3.1 Strategy creation and implementation

- Do you have plans for the future: long-term, short-term? Please describe.
- What kind of important strategic decisions have you recently undertaken? What kind of decisions have you made recently in order to achieve your future plans? What constraints did you face when implementing your decisions?
- How were these decisions/changes initiated? By whom were they approved? Who realized them?

3.3.2 Managerial discretion

- What are your responsibilities as a manager of the company?
- What do you consider to be your role in these decisions? What would do you usually do to fulfil this role?
- How would you characterize the overall involvement of managers in organizational decision-making process?

4. Corporate governance mechanisms

4.1 Ownership concentration

- Do you know who are the owners of your firm? What is their role? What are their formal responsibilities? What are the activities they are involved in? To what extent do they influence planning: long-term? short-term?
- What role do owners play in planning within the organization? What type of decisions are they involved in? What influence are they able to execute? What influence do they typically execute on managerial decisions?
- What kind of information do you provide to the owners? To what extent are they informed about current situation and your plans as well?
- How would you describe the existing system according to which you report your actions to the company owners? To whom do you need to report about your actions? How often? How do you report about your activities? In what settings (formal or informal)? To what extent are you accountable for your decisions? What are the systems directed towards minimization of unprofessional actions of managers?

4.2 Managerial labour market

- How developed is the market for managerial labour? How fierce is the competition there? How are managers usually recruited in your firm? What about other firms? How do you hire top managers in your company? How do other firms hire top management? How would you describe the current situation in the market for managerial labour? What are the peculiarities of the Russian managerial labour market?
- Could you describe how you obtained your position in the company? What are the criteria according to which you were hired?
- Which criteria do you consider when hiring new managers? How hard is it to recruit a skilled professional manager?

4.3 Financial capital structure

- Does your firm have an opportunity to use sources of external financing? If yes, what sources of external financing is the firm now using? What does the process of getting external financing look like? What are the issues associated with obtaining external financing for the firm? What is the relative proportion of external capital in your firm?
- Do you use any supplier credit systems? When do you usually pay your suppliers? Do you have an option of delayed payments to your suppliers?

4.4 Control questions

[If none of the other mechanisms of corporate governance appear during the interview, we will still ask what role is attributed to each of the following mechanisms:]

4.4.1. The board of directors:

- Do you have a board of directors in your firm? Is there any formal or informal committee involving managers, owners, and other affiliated parties that undertake decisions regarding planning within the firm?
- Do your owners have formal meetings? Do they have informal ones? If yes, what kind of decisions do they usually undertake during these meetings?

4.4.2. The auditors

- What kind of audit system does your firm have? In case of external auditing, what company does the audit service for your firm?
- How important is it to comply with auditing standards in your business industry? What are the internal policies of the firm regarding the auditing process?

4.4.3. Managerial compensation

- How are you being rewarded for your work? What is the top managers' compensation system in your company? Is there an option of obtaining company stock at discounted prices?
- Is your salary negotiable? What influences changes in your salary?

5. Boundaries of discretion

Have you had any crisis situations where you as a manager had to act without approval from higher authority? Was your action motivated by its importance for the firm's future development? Could you please give an example? What kind of constraint did you overcome to implement your decision?

6. Final remarks

To sum up, could you state a general opinion about what are the factors that influence the process of your decision making? What decisions can you make in the organization? What kind of decisions can you *not* make in the organization? Why?