



Parental control: A study of U.S. subsidiaries in Mexico

Steven Russell Lovett^{a,1}, Liliana Pérez-Nordtvedt^{b,*}, Abdul A. Rasheed^{b,2}

^a School of Business, The University of Texas at Brownsville and Texas Southmost College, 80 Fort Brown, Brownsville, TX 78520, United States

^b Department of Management, The University of Texas at Arlington, Box 19467, 701 S. West Street, suite 215, Arlington, TX 76019, United States

ARTICLE INFO

Article history:

Received 27 January 2008

Received in revised form 4 February 2009

Accepted 7 May 2009

Keywords:

Mexico

Parental control

Subsidiary purpose

ABSTRACT

This study develops a framework that suggests that subsidiary characteristics, such as performance, purpose and manager nationality affect the extent of control and mechanisms of control (i.e., results, cultural and action controls) that their parent companies exercise over them. Hypotheses were tested using survey responses from 44 Mexican subsidiary–U.S. parent dyads. As expected, results suggest that parental perceptions of subsidiary performance are inversely related to the extent of control that parent companies exercise over these subsidiaries. It was also found that subsidiaries established for purposes relating to a knowledge seeking motivation tended to be subject to more cultural control, but no support was found for the hypothesized relationships between market purpose and results control, and resource purpose and action control. Finally, also as predicted, Mexican managers tended to be subject to greater action control by their U.S. parent than American managers.

© 2009 Elsevier Ltd. All rights reserved.

1. Introduction

Multinational enterprises (MNEs) are playing an increasingly important role in the world economy (Dunning, 1993) as they have been considered market making firms, investment bridges between economies, agents of change (Eden, 1995), and the embodiment of globalization (Eden & Lenway, 2001). Much progress has been made in understanding the interrelationships among the different parts of the MNE (e.g., Bartlett & Ghoshal, 1989; Jarillo & Martinez, 1990). A key research area in the management of MNEs concerns the study of the headquarters–subsidiary relationship (Gupta & Govindarajan, 1991; Paterson & Brock, 2002; Roth & Nigh, 1992). The design of appropriate control systems for subsidiaries is a critical requirement for the effective implementation of the strategies of MNEs. Given the growing realization that subsidiaries within an MNC take on different roles (Birkinshaw & Morrison, 1995; Jarillo & Martinez, 1990; Roth & Morrison, 1992) and different purposes (Dunning, 1993; Nachum & Zaheer, 2005), the issue of fit between the strategic purpose of the subsidiary and the type of control system followed by the parent becomes particularly salient. The purpose of this research is to investigate parent–subsidiary relationships with specific emphasis on the issue of parental control and its performance consequences.

The exercise of MNE control is an important issue for both scholars and practitioners because parental control affects the effectiveness with which the multinational parent's competitive advantages can be transferred to foreign subsidiaries (Hu, 1995), and because of the danger that inappropriate parent control systems may pose to the creation of value (Campbell, Gould, & Alexander, 1995). Using a sample of U.S. parent companies and their Mexican subsidiaries, this study examines how

* Corresponding author. Tel.: +1 817 272 3858; fax: +1 817 272 3122.

E-mail addresses: steve.lovett@utb.edu (S.R. Lovett), lnordtvedt@uta.edu (L. Pérez-Nordtvedt), abdul@uta.edu (A.A. Rasheed).

¹ Tel.: +1 956 882 7382; fax: +1 956 882 5808.

² Tel.: +1 817 272 3867; fax: +1 817 272 3122.

subsidiary characteristics (i.e., subsidiary performance, purpose, and management nationality) affect the extent of control that the parent exerts over the subsidiary and the selection of control mechanisms. Further, we also examine whether the match between the type of control mechanism and subsidiary purpose leads to improved subsidiary performance.

While there has been a significant increase in the number of empirical studies on parent–subsidiary relationships (e.g., Gencturk & Aulakh, 1995; Gupta & Govindarajan, 1991; Martinez & Jarillo, 1989), research focusing on mechanisms of control exercised over foreign subsidiaries is somewhat limited. Given that different mechanisms of control are often considered to be substitutes for each other (Snodgrass & Szewczak, 1990), understanding whether or not some mechanisms of control work better than others under certain situations is critical to MNE research. Further, while the reasons for which MNEs engage in foreign direct investment has been the subject of considerable theoretical and empirical research (e.g., Behrman, 1974; Dunning, 1993; Eden & Lenway, 2001; Nachum & Zaheer, 2005), there is only limited examination of the relationship between subsidiary purpose (i.e., FDI motivation) and parental control. This is a surprising gap in the literature considering that “planning and control are often so closely intertwined as to be indistinguishable” (Camillus, 1986, p. 15) and that studying planning and control separately is “not useful for describing what actually happens in an organization” (Anthony, 1965, pp. 67–68).

We address the above gaps in extant literature by seeking to answer four interrelated research questions regarding parent–subsidiary relationships. First, what is the relationship between subsidiary performance and the extent of control that the parent exerts over the subsidiary? Excessive control is one of the activities by which parents destroy value (Campbell et al., 1995). For example, too much decentralization or too little control “inevitably carr[y] efficiency penalties” (Bartlett & Ghoshal, 1989, p. 59). Therefore, finding the proper control balance is critical to the success of the MNE. Second, is there a systematic variation in the mechanisms of control that parents use based on the goals that the parents set for their subsidiaries? Third, what are the performance consequences of the fit between control mechanism and subsidiary purpose? Understanding the link between control mechanisms and subsidiary purpose and their relationship to performance is crucial, particularly to practitioners, as “in practice few companies have yet made much progress with the development and use of formal or explicit control systems” that coordinate organizational efforts to achieve goals, align individual and organizational goals, and signal corrective action by senior management (Goold & Quinn, 1990, p. 46). Finally, to what extent does the nationality of the subsidiary manager affect the parent’s choice of control mechanism?

2. Literature review and theoretical foundation

2.1. Strategic vs. operational control systems

The literature on control recognizes two broad categories of control systems: operational and strategic control systems (Anthony, 1965; Goold & Quinn, 1990; Schreyogg & Steinmann, 1987). Operational control, also known as budgetary control (Goold & Quinn, 1990) or feedback control (Schreyogg & Steinmann, 1987), deals with objectively verifying that specific tasks or transactions are performed according to predetermined decision rules (Anthony, 1965). While operational control is concerned with meeting short-run financial goals (Goold & Quinn, 1990), strategic control, also known as management control (Anthony, 1965) or feedforward control (Schreyogg & Steinmann, 1987), focuses on the long term and may include competitive and social goals (Goold & Quinn, 1990). In general, strategic control is proactive and recognizes the uncertainty and complexity inherent in strategic management. As a primary purpose of this research is to relate parent control with subsidiary purpose, our emphasis in this paper is on strategic control.

2.2. Extent of control and mechanisms of control

Prior research on control clearly acknowledges its multi-dimensional nature (e.g., Simons, 1994; Tannenbaum, 1968). In the context of international joint ventures, Geringer and Hebert (1989) identified three dimensions of control: *extent* of control, *mechanisms* of control and *focus* of control. The extent of control that parents exercise over subsidiaries is determined by the centralization of decision making. Control may also be exercised through a number of mechanisms of control (e.g., results, action, and/or cultural controls). Finally, focus of control refers to the exercise of control over a wide or narrow range of subsidiary activities. While both extent of control and mechanisms of control have captured the attention of a number of management scholars (e.g., Chow, Kato, & Merchant, 1996; Cray, 1984; Geringer & Hebert, 1989; Merchant, 1985), the focus dimension has attracted much less attention. We believe that this might be partially attributable to the fact that the operationalization of the extent of control in many studies has essentially subsumed the focus dimension (as a sum of the reported degree of control over various activities). Consistent with this research tradition, our emphasis in this paper will also be on the extent of control and mechanisms of control. Extent of control usually refers to the amount of control or the presence or absence of control. Extent of control is important as it may become a bargaining issue between the parent and the subsidiary (Lyles & Regeer, 1993). Control may be exercised through various mechanisms (Merchant, 1985; Ouchi, 1979, 1980). Three broad categories of mechanisms of control found in the literature are relevant to this research: (1) results control, where goals are stated in terms of some measurable output, (2) cultural control, wherein individuals within an organization internalize organizational goals and values, and (3) action control, where both goals and the means by which these goals can be achieved are specified. These three categories are similar to Ouchi’s (1979) typology of control mechanisms: market, clan, and bureaucratic controls.

Download English Version:

<https://daneshyari.com/en/article/1001660>

Download Persian Version:

<https://daneshyari.com/article/1001660>

[Daneshyari.com](https://daneshyari.com)