International Business Review 19 (2010) 521–530

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

An exploration of managerial discretion and its impact on firm performance: Task autonomy, contractual control, and compensation

Yanni Yan [a,*], Chan Yan Chong [b,1], Simon Mak [c,2]

[a] Department of Marketing, Faculty of Business, City University of Hong Kong, Tat Chee Avenue, Kowloon Tong, Hong Kong, P.R. China
[b] Department of Management Science, Faculty of Business, City University of Hong Kong, Tat Chee Avenue, Kowloon Tong, Hong Kong
[c] Department of Management, Faculty of Business, City University of Hong Kong, Tat Chee Avenue, Kowloon Tong, Hong Kong

ARTICLE INFO

Article history:
Received 12 November 2007
Received in revised form 10 March 2010
Accepted 29 April 2010

Keywords:
Asset specificities
International joint ventures
Management compensation
Managerial discretion
Task autonomy

ABSTRACT

Managerial discretion refers to coherent, rational, unified decisions executed by managers to achieve organizational development. This study empirically tests a managerial discretion model that posits that overall firm performance depends on the degree to which task autonomy, contractual control and management compensation influence the managerial discretion exercised in international joint ventures (IJVs). With survey data from 136 IJVs in China, the authors identify that relationship between the level of organizational commitment of IJV managers and the exploitation of firm-specific capabilities tends to increase when managers have the necessary levels of discretion. Our findings suggest that contractual control does not engender a statistically significant relationship between greater managerial discretion and superior firm performance. This study contributes to strategic management and managerial capitalism theory in that, as IJV managers gain more managerial discretion, their task autonomy and compensation positively mediate the relationship between this discretion and the performance.

1. Introduction

The analysis of managerial discretion and its impact on performance has recently generated significant scholarly interest (Key, 2002; Peteraf & Reed, 2007). The most important issue is the assessment of those cultural traits that directly influence the effect of managers' discretion on performance (Mueller & Yun, 1997). Managerial discretion refers to the strategic freedom to act, or the latitude of action that managers have when they formulate strategic activities, including implementation of organizational structure, determination of corporate development strategy and execution of technology transformations (Montanari, 1978; Takeuchi, Shay, & Li, 2008). The specification of decision-making latitude enables managers to attain the desired strategic objectives through three elements: the task environment, the internal organization, and the managerial characteristics (Hambrick & Finkelstein, 1987). The task environment, a dynamic and independent entity, includes market potential, product differentiability, industrial segments, competitive forces and capital intensity (Magnan & St-Onge, 1997). The internal organization is a primary control instrument for capturing the features of organizational structure, routines, system and process (Gong, Shenkar, Luo, & Nyaw, 2007). Finally, managerial characteristics reside in the cultures, values, norms and managing principles that firm members share (Keegan & Kabanoff,

* Corresponding author. Tel.: +852 2788 7974; fax: +852 2788 9146.
E-mail addresses: mkyany@cityu.edu.hk (Y. Yan), msycchan@cityu.edu.hk (C.Y. Chong), mgsimak@cityu.edu.hk (S. Mak).
[1] Tel.: +852 2788 8587; fax: +852 2788 9891.
[2] Tel.: +852 2788 7957; fax: +852 2788 7220.

0969-5931/$ – see front matter © 2010 Elsevier Ltd. All rights reserved.
doi:10.1016/j.ibusrev.2010.04.004

2008). According to Carpenter, Sanders, and Gregersen (2001), there is little empirical evidence that offers guidelines as how to value managerial discretion over a firm's development, behavior and performance.

This study addresses four details pertaining to managerial discretion, discretionary factors and performance. First, we empirically evaluate the extent to which managers with substantial freedom, greater participation efficacy and independent power enable their firms to advance, formulate and improve their organizational success (Brodbeck, Kerschreiter, & Mojzisch, 2007). Similarly, Finkelstein and Boyd (1998) suggest that when managers are members of the "dominant coalition" in an organization, their power affects managerial discretion with regard to the exercise of technological innovations, financial resources and organizational governance. Second, we extend current managerial capitalism theory by defining the notion of managerial discretion together with the continued deployment of discretionary factors to address a firm's resource constraints and pursue superior performance (Finkelstein & Hambrick, 1990; Sharma, 2000). This study explicitly defines how managers' discretion affects their participation in organizational development. Third, international business literature indicates that managers with greater discretion may use their knowledge to initiate distinctive, unique and difficult to imitate developments. The study identifies how managers undertake discretionary actions such as task autonomy, contractual control and management compensation. Finally, this study sheds light on organizational phenomena such as strategy formation, administrative intensity and strategic inertia (Becker, 1964; Magnan & St-Onge, 1997). In this regard, practitioners should fully engage in a firm's critical development to optimize its performance.

This study focuses on the Chinese hotel industry for four reasons. First, the latitude of IJV managers' discretion over the launch and exploitation of new, rare and distinctive resources controls their influence over organizational development. This study pertains to the managerial discretion that managers should have to support a hybrid IJV. The setting of IJV hotels in China constitutes an international business context within which it is possible to measure the relationship between discretion and its impact on performance. Second, IJV managers with greater managerial discretion have more control over the execution of critical product and service developments. The hotel industry in China is one of the foremost areas for international service development that entails massive amounts of financial capital, including multi-million dollar businesses and non-capital resource investments (Cull & Xu, 2005; Sutton, 1996). Third, IJV managers with managerial discretion to initiate, select and use distinctive resources are able to identify additional local investment opportunities. Most IJV hotels in China regularly confront rapid market and institutional changes that affect their development in areas such as complexity of services, availability of resource, quality control and managerial activity (Yan, 2005). Finally, IJV hotels in China rely on resource investments to improve their economic and service competitiveness. Managers with greater discretion are better able to reconcile task autonomy, contractual control and management compensation to achieve improved performance.

2. Model and theoretical development

The model in Fig. 1 defines the theoretical underpinnings whereby managerial discretion impacts upon how managers take strategic decisions that produce superior performance. As the model portrays, managers can take active roles that augment their discretional abilities and encourage organizational development. Despite the lack of conceptual research into managerial discretion (Hambrick & Finkelstein, 1987), scholars emphasize that the task environment, the internal organization and the management may affect the latitude of managerial discretion (Becker, 1964; Hambrick & Abrahamson, 1995; Montanari, 1978; Peteraf & Reed, 2007). Fig. 1 shows that managers affect a firm's development by performing specific acts (i.e., task autonomy), safeguarding relational obligations (i.e., contractual control) and setting levels of remuneration (i.e., management compensation). We posit that managerial discretion in an IJV can be represented by their strategic maneuvers to provide additional organizational development.

2.1. Managerial discretion

Managerial capitalism theory supports normative propositions that managerial discretion can provide a source of competitive advantage (Aragón-Correa, Matías-Reche, & Senise-Barrio, 2004; Becker, 1964; Carpenter et al., 2001). First, managerial discretion refers to the extent to which managers take active roles in exercising independent and substantial sovereignty in changing the organizational structures, promoting superior customer values and building up premium

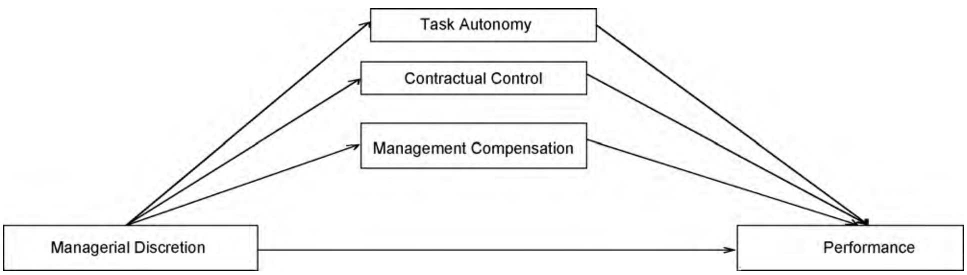

Fig. 1. Managerial discretion and its impact on the performance of IJVs.