



Management control in public sector Joint Ventures

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ABSTRACT

Cooperation among public sector organizations (PSOs) is increasingly important in the management of resources in welfare systems. A Joint Venture (JV) is an organization form that enables PSOs to cooperate with each other in order to achieve economies of scale. However, JVs contain interrelated horizontal and vertical control relationships (between the owners and between the owners and the JV Company) that complicate their control. The first aim of this paper is to map the dynamics in vertical and horizontal control packages in municipal JVs and to describe the relational factors that affect them. Based on three case studies we conclude that vertical control packages are affected by: goodwill trust and competence trust; parent differences in management style and size in combination with control competence; parent diversification (low relatedness between the JV's activity and the parents' other activities); and the horizontal control package (e.g., rules for parent interaction and distribution of work). Horizontal control packages are affected by: goodwill trust, system trust and calculative trust; parent differences in size; and efforts to achieve equality. The second aim of the paper is to contribute to the discussion on the relationship between trust and control. We observed that trust is potentially unaffected by the introduction of formal controls. We also found that trust has an inverted "crowding out" effect on control. A high ambition to maintain trust leads to underdeveloped formal controls. In addition, we found that the ambition to preserve trust may inhibit the realisation of economies of scale.

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1. Introduction

Recently there has been increased interest in research on control across organization boundaries. This interest is a consequence of closer relationships between organizations – for example, Joint Ventures (JV), long-term outsourcing relationships, licensing agreements and franchising arrangements (Håkansson and Lind, 2004) – and of influential researchers' calls for investigation into the governance of these new relationships (Hopwood, 1996; Otley, 1994).

In this paper we focus on municipal JVs. A JV is an organization form used by two or more organizations (parents or owners) to gain access to new capabilities, customers and resources, to reduce risk and to exploit economies of scale (Groot and Merchant, 2000; Kamminga and van der Meer-Kooistra, 2007). Here our interest is municipal JV Companies (joint-stock) that are created to achieve economies of scale.

Even though inter-organizational relationships in the public sector setting are as common as those in the private sector, there is less research on them (Samuel et al., 2009). Increasingly, in many countries public and private organizations, in collaboration with two or more public authorities, provide welfare services, not least at the municipal level (Broadbent and Guthrie, 2008). In this environment, a new management control problem arises

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when municipalities have to develop ways to control the behaviour of other organizations.

At present, public administration and public accounting researchers generally focus on inter-organization relationships such as outsourcing and Public–Private Partnerships (PPPs) (Moll and Humphrey, 2007). The lack of interest in JVs is somewhat surprising since JVs, with their interrelated horizontal and vertical control relationships, increase the complexity in the inter-organizational setting. Both these relationships may create problems as a consequence of cooperation/appropriation and coordination challenges (Caglio and Ditillo, 2008; Dekker, 2004). For instance, parents must develop safeguards against exploitation by other parents (horizontal appropriation concerns), align the JV Company's behaviour with their own interests (vertical appropriation and coordination concerns), and coordinate the JV control process among the parents (horizontal coordination concerns) (Groot and Merchant, 2000; Chalos and O'Connor, 2004).

One way to deal with these challenges is to develop control packages – one for the horizontal, flat relationship between the parents and one for the vertical, hierarchical relationship between the parents and the JV Company (cf. Groot and Merchant, 2000; Kamminga and van der Meer-Kooistra, 2007). While other researchers have studied the transactional, relational and institutional factors that influence the design of these JV control packages, they have not conceptually and empirically separated the vertical controls from the horizontal controls. Consequently, there is insufficient knowledge on how the design of horizontal and vertical control packages fulfils the ambitions associated with JVs. Furthermore, few studies explicitly focus on relational factors or provide adequate information about control package design in municipal JVs where the aim is to exploit economies of scale. These aspects are developed in our study of control packages used in municipal JVs.

In addition, this paper increases our understanding of the dynamic and multifaceted interaction between control and trust. There are studies on control in inter-organizational settings that note the various relationships between control and trust. Yet, because the results of these studies conflict, and therefore are somewhat inconclusive, there have been many calls for further research (Dekker, 2004; Emsley and Kidon, 2007; Free, 2008; Kamminga and van der Meer-Kooistra, 2007; Langfield-Smith, 2008; van der Meer-Kooistra and Scapens, 2008; van der Meer-Kooistra and Vosselman, 2006; Vélez et al., 2008). Some studies on trust and control suggest there is an inverted relationship between them (van der Meer-Kooistra and Vosselman, 2000) while other studies argue that the relationship may be more complex. For instance, Vosselman and van der Meer-Kooistra (2009) argue that while exaggerated control may have a “crowding out” effect on trust, control may also be a trust-enhancing device – through information sharing (Dekker, 2004; Tomkins, 2001) and through monitoring (Vélez et al., 2008). Vosselman and van der Meer-Kooistra (2009) call for increased emphasis on the interaction between trust and control and for less focus on an either/or relationship. In the spirit of Tomkins (2001), van der Meer-Kooistra and Vosselman (2006) foresee

interesting theorizing on the dynamic interaction between trust and control over time (see also Dekker, 2004).

Our aim in this paper is to map the dynamics in vertical and horizontal control packages in municipal JVs and to investigate the relational factors that affect them. In so doing, we also contribute to the discussion on the relationship between trust and control in inter-organizational relationships.

The paper is structured as follows. We next develop a theoretical framework for our research by explaining the core concepts used, the factors expected to influence JV controls, and the relationship between trust and control. Thereafter we present the paper's method and empirical material, followed by a discussion of our findings. In the final section we draw conclusions and offer suggestions for future research.

2. Theoretical framework

2.1. Control packages

Control is about affecting behaviour. Management control is used in organizations to encourage, enable and force managers and employees to act in the interest of the organization. In inter-organizational management control (IOMC), the controlled are on the opposite side of the organizational boundary from the controller, but the objective of control is the same. The core concept of *control package* used in this paper is consistent with several management control research ideas (Malmi and Brown, 2008; Otley, 1980). First, organizations use many interlinked controls in a control package. Second, these control packages are not mere bureaucratic formalities such as management control systems (budgets, responsibility centres, performance measurements, incentives) and organizational forms directly aimed at structuring and influencing behaviour. Control packages also contain informal elements (e.g., social or cultural controls) that influence the member behaviour of the cooperating organizations. Third, the combination of controls in the packages determines their efficacy. Controls must be internally aligned, that is, adapted to each other, and the package as a whole must be externally aligned, that is, adapted to external contingencies (Miller, 1992). However, because controls are often implemented on different occasions (perhaps by different interest groups) they may be poorly coordinated (Malmi and Brown, 2008). In discussing a control package, it is important to recognize that problems may arise when the focus is on a single element in an organization's control package, especially in the search for a link between certain contingency variables and the adoption of a particular control (Malmi and Brown, 2008; Otley, 1980). Consequently, in examining control packages, a holistic view of controls and their relevant context is required.

Researchers have advanced a number of different conceptualisations of control, both in the general literature on IOMC (Langfield-Smith and Smith, 2003) and in the JV literature (Geringer and Hebert, 1989). Yet there is still no consensus in recent JV control studies about the best conceptualisation of control despite clear similarities between some conceptualisations. Inspired by Geringer and Hebert

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