



# A Meta-analysis of Factors Leading to Management Control in International Joint Ventures



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## ARTICLE INFO

### Article history:

Received 23 February 2012

Received in revised form 13 July 2013

Accepted 14 July 2013

Available online 9 August 2013

### Keywords:

International joint venture

Meta-analysis

Management control

Antecedents

Moderators

## ABSTRACT

In international joint ventures (IJVs), management control exerted by parent firms is fundamental since it can direct employees' activities to strive for the overall goals, to safeguard parent firms' idiosyncratic investments and to decrease opportunistic behaviors. Using a meta-analytic approach, we investigate the main factors influencing management control in IJVs. A search of the published and unpublished literature uncovered 45 articles that yielded 329 reported correlations between the factors and management control with a total sample size of 15,252 IJVs. Results indicate that the factors can be ordered in the following way in terms of the average size of their association with management control: resource contribution; equity share; trust; and strategic importance to the IJVs. Three moderators including operating country (China versus other countries), industry type (manufacturing versus service) and management control type (formal control versus informal control) were proposed to examine the heterogeneity issue. Our meta-analysis suggests that there is a bias of the empirical studies given that a majority of the samples are IJVs operating in the Chinese manufacturing industry, which indicates that results of this meta-analysis may not be representative of all IJVs and that future empirical research should include IJVs in other countries and in other industries.

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## 1. Introduction

A control system is fundamental to organizations because it can be used to direct employees' activities to strive for the overall goals of the organization, to safeguard parent firms' idiosyncratic investments and to decrease opportunistic behaviors (Cyert and March, 1963; Johnson et al., 2001; Kumar and Seth, 1998). The organization structure will become more complex as an organization expands, so that the opportunistic behaviors in daily business activities and conflicts generated from competing goals between units will appear more frequently (Child, 2002). In international joint ventures (IJVs), parent firms from different countries have different strategic objectives and different cultural backgrounds, which further complicate control issues (Geringer and Hebert, 1989). Specifically, the management challenges of the IJV have, over the past decade, intensified as state-owned companies driven by national public policy goals have entered increasingly into joint ventures with shareholder-owned corporations driven by financial goals. This has been especially prevalent in energy and resources markets (Chen, 2007; Pirog, 2007). The changing nature of global environmental and social issues and the way activist organizations target companies are also increasingly presenting differing management challenges to IJV partners depending on whether they are state-owned, publicly-listed or privately-owned (Allwright and Vredenburg, 2010; Escobar and Vredenburg, 2011).

These unique characteristics explain why researchers from various disciplines have been interested in analyzing and exploring control issues in IJVs. Researchers have examined different dimensions of management control in IJVs (e.g., Geringer and Hebert,

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1989), the factors influencing management control in IJVs and the motivations for parent firms to seek control in IJVs (e.g., Chen et al., 2009; Yan and Gray, 1994, 2001a), and the control–performance relationship (e.g., Choi and Beamish, 2004). Specifically, there is strong evidence in the IJV literature that management control is of great importance in explaining IJV performance. For example, Reus and Rottig (2009) identified a significant positive correlation ( $\bar{r} = 0.18, p = 0.05$ ) between management control and IJV performance based on 61 independent samples and a total of 26,927 IJVs. A desired corporate performance requires parent firms to build effective control systems and to allocate appropriate control powers, so that the parent firms could effectively transfer their firm specific advantages to the joint venture (Choi and Beamish, 2004; Yan and Gray, 2001b). Insufficient or ineffective control can limit a parent company's ability for carrying out its strategic decisions and effectively utilizing resources to achieve satisfactory corporate performance (Beamish and Banks, 1987; Geringer and Hebert, 1989; Mjoen and Tallman, 1997).

Understanding the factors leading to management control has value in establishing an effective control system in IJVs. Empirical studies suggest that a misunderstanding of management control systems could lead to failures in IJVs, thus limiting the parent companies from acquiring foreign direct investment, financial support, natural resources and advanced technologies (e.g., Chen et al., 2009; Yan and Gray, 1994, 2001a). Theoretically, for such a crucial strategic topic, there still remains much that is not well understood about the antecedents of successful management control. Blodgett (1991), Yan and Gray (1994), and Chen et al. (2009) have published narrative reviews, quantitative studies and empirical case studies on antecedents of management control. While these researchers provide important insights and syntheses, they do not provide conclusive evidence of factors relating to effective management control in IJVs (Johnson and Eagly, 2000). In this article, we attempt to fill these gaps in evidence by employing a meta-analytic approach to the management control of IJV question.

Originally developed during the 1970s, meta-analysis has become an increasingly common methodology across the scientific spectrum (Horton, 1997). Its widespread adoption is primarily due to meta-analysis' ability to statistically synthesize a research topic and consequently draw conclusions that any single empirical study could not. The process begins with converting statistical results from different quantitative studies into a common metric, which can then be aggregated to provide a more accurate depiction of the topic in question than any single study (Hunter and Schmidt, 2004). From this aggregation, meta-analysis can control for sampling effects, essentially removing noise from the data and allowing any underlying relationships to be observed more clearly. In addition, meta-analysis can provide a moderator search to control for between-study variation and account for residual variance, which is the variance remaining after we have controlled for sampling error. In short, the methodology can help determine what factors (besides random error) can cause results to vary.

The recent growth of quantitative studies on the antecedents of management control in IJVs provided the basis for this meta-analytic study. The purpose of this article is threefold. First, we examine the nature of management control conceptually. As pointed out by Beamish and Killing (1996), a major problem in IJV research is that variables often are operationalized in multiple ways. Therefore, we have integrated different descriptions of management control into a single coherent definition. Building on this definition, the second purpose is to broadly explore factors that influence management control in IJVs. The factors were subsequently tested through meta-analytic review, which is a rigorous option for integrating research findings to provide a quantitative description of the cumulative research findings (Glass, 1976; Hunter et al., 1982). Finally, in addition to statistical aggregation of empirical findings, we provide a systematic examination of between-study moderators. Furthermore, this study goes beyond Reus and Rottig's (2009) work to further investigate the factors that influence management control in IJVs which can bring insights into how parent companies might improve management control and therefore improve IJV performance.

## 2. Definition of management control in IJVs

Different constructs referring to management control (as shown in Table A.1) were found in the IJV literature, such as decision-making control (e.g., Pangarkar and Klein, 2004), management control (e.g., Choi and Beamish, 2004; Yan and Gray,

**Table A.1**

A profile of different constructs of control.

Different constructs	Control activities	Measures	Representative empirical studies
Parent control	1. Output control; process control; social control 2. Strategic control; structural control; operational control	Respondents were asked to specify levels for different control activities (Seven-point Likert Scale).	Chen et al. (2009) and Yan and Gray (2001a)
Management control	Operational control and financial control	Respondents/managers were asked to evaluate the influence of the parent companies over different control activities.	Barden et al. (2005), Yan and Gray (1994), and Choi and Beamish (2004)
Decision-making control	Control on decision making on critical functions	JV managers were asked to assess the extent to which one partner has control over the decision making	Pangarkar and Klein (2004)
Administrative control	Control on monitoring, career rewards, surveillance mechanisms and penalties.	Control is measured by the equity percent that a parent company has.	Folta (1998)
Ownership control	One control mechanism that is exerted by the percentage of equity share	The ratio of equity held by foreign parent to total equity capital of the IJV.	Ramaswamy et al. (1998)

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