A transaction cost economics approach to investigating the control of wholly owned foreign subsidiaries

James Wakefield

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Discipline of Accounting
UTS Business School
University of Technology, Sydney
Certificate of Authorship/Originality

I certify that the work in this thesis has not previously been submitted for a degree, nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

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__________________________________
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Abstract

This thesis investigates the transaction cost economics (TCE) theory of management control conceptualised by Speklé (2001) in the context of wholly owned foreign subsidiary (WOFS) operations controlled by multinational corporation headquarters. Investigating this theory provides the basis of a comprehensive understanding of management control system choices, specifically in the WOFS context where activity traits (uncertainty, asset specificity and ex-post information asymmetry) are of particular relevance. Mixed methods are applied in this study to rigorously investigate the theory. First, a series of five case studies are conducted and used to comprehensively examine the control archetypes proposed in the theory. The evidence from the case studies suggests headquarters exercise the control archetypes proposed in the theory; however, combinations rather than single and distinct control archetypes are exercised by headquarters. In addition, not all control archetype choices are associated with activity traits as the theory proposes. Second, data was collected through a cross sectional survey questionnaire to test Speklé’s (2001) theory. Factor analysis of the control archetype construct indicators demonstrates that the five control archetypes proposed in the theory are representative of headquarters’ control choices. However, the data indicates headquarters use multiple rather than distinct control archetypes which is inconsistent with Speklé’s (2001) theory, but consistent with the case study suggestions. The ordinary least squares (OLS) regression results indicate that the association between activity traits and control archetypes proposed in Speklé’s (2001) theory are supported in some cases, but not in all. In particular, results and action controls are widely exercised by headquarters, inconsistent with Speklé’s (2001) propositions. This thesis contributes to theory through applying the TCE theory of management control in the context of WOFS operations, facilitating a comprehensive approach to understanding control choices. This provides guidance to practice concerning important factors, activity traits, influencing control archetype choices.