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

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A thesis submitted for the degree of Doctor of Philosophy

2012

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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.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

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Acknowledgements

I would like to thank my supervisors Professors Zoltan Matolcsy and Dr Francesco Giacobbe for their supervision and acknowledge their contributions to this thesis. Zoltan and Francesco have been a great source of encouragement and guidance to me throughout the PhD program. I greatly appreciate this and all the time they have spent guiding me throughout this process.

I would like to thank all the visiting academics at the UTS Business School Discipline of Accounting who have provided valuable feedback and suggestions on the thesis. In particular, thank you to Professor Teemu Malmi who provided critical and constructive feedback which has played an important role in this thesis and my learning experience.

Thank you to the participants at the conferences, workshops and doctorial colloquiums this research was presented at for their helpful, valuable and constructive feedback and suggestions: the 2009 Accounting and Finance Association of Australia and New Zealand (AFAANZ) conference and doctoral colloquium; the 2009 Monash University Forum for Management Accounting (MONFORMA) doctoral colloquium; the 2010 British Accounting Association conference and doctorial colloquium; the University of NSW seminar series; the 2011 American Accounting Association (AAA) Management Accounting Section Research and Case Conference and Institute of Management Accountants doctoral colloquium; the 2011 Global Management Accounting Symposium (GMARS) Emerging Scholars Forum; the 2012 British Accounting for Finance Association (BAFA) conference; and the 2012 AFAANZ conference.

Thank you to all my colleagues at UTS for the feedback, suggestions and support they have provided regarding this thesis. In particular, thank you to Dr Jonathan Tyler for his insightful guidance, advice and direction. I have really enjoyed working with Jonathan over the last few years and it has been a great learning experience. I would also like to thank Dr Matthew Peters for his valuable advice, feedback and suggestions, particularly concerning the survey development, administration and data analysis.

Thank you to all of the interviewees who provided their valuable time, despite busy schedules, that allowed the case study data to be collected. They provided critical data and important insights, invaluable to the completion of this thesis. In addition, thank you to all

the survey participants for completing the survey questionnaire and those who provided important feedback and suggestions during the survey testing.

I would like to thank the UTS Discipline of Accounting and Professor Peter Wells as Discipline Head for all the support I have received throughout my PhD. The generous support of the Discipline of Accounting has allowed me to collect the extensive case study and survey data set used in this thesis, access valuable feedback and suggestions from visiting academics and at conferences, as well as time to complete this thesis.

A big thank you to my parents, Marcia and Russell, for all their support provided over the years. My studies at UTS have been a long and enjoyable journey, thank you for always being there.

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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.