Configuration, Design and Uses of Management Control Systems in International

Equity Joint Ventures: a Theoretical and Empirical Study

Realizada por: Marcela María Porporato Daher

Dirigida por: Josep Maria Rosanas

Lugar de celebración: Instituto de Estudios Superiores de la Empresa (IESE) de Barcelona

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Tribunal:
Leandro Cañibano (presidente)
Oriol Amat (vocal)
Africa Ariño (vocal)
Tom Groot (vocal)
Javier Arellano (secretario)

ABSTRACT

Strategic alliances are consolidating as a key point in the strategies of many companies; however the issue of control still offers contradicting results. There are indicators that such operations are not so successful, problems rooted in the management accounting information systems are mentioned as typical failure causes. This problem underlies the motivation to study management control systems in the context of international equity joint ventures (JVs) from the accounting literature perspective. This study attempts to examine the configuration, design and uses of management control systems in international equity JVs. This examination is bases on a management control systems configuration and design that relies on Contingency Theory to build the conceptual framework that identifies components and contingent factors that generate different configuration in JVs, and also is bases on an approach to the uses of management control systems rooted in Transaction Cost Economics that differentiates monitoring from coordination purpose of use.

This dissertation consists of three papers with increasing degree of complexity, contributing each one with different and useful elements to clarify the problem of management control systems in equity JVs. The literature review of the first paper identifies a gap allowing the building of three related research questions whose answers enrich the accounting and managerial academic fields: 1) from a static perspective it is hard to identify the components and uses of management control systems in JVs; 2) from a process perspective the steps in the design and configuration as well as its evolution is not entirely clear; and 3) from a purpose perspective, there are reasonable doubts whether management control systems improve JVs performance.

In the second paper the three case studies of JVs in the motor and auto parts industry justify three main assertions. First, four components of management control systems are perceived, three of them under the JV managers and partners' controllers responsibility –budgeting, transfer prices and performance measurement, while the other – governance mechanisms – is associated with the partners top management team. Second, each management control system is designed at different stages of the JV evolution and is affected by different contingent factors; until the initial agreement is signed, environmental uncertainty, strategy and culture impact on governance mechanisms and transfer prices of services and technology; while after the initial agreement has been signed, structure and technology impact on budgeting, performance measurement and transfer prices of components produced or consumed by the JV. Third, management control systems are not as crucial for JV's success as between-partners strategic fit or trust.

There are three relevant findings based on the survey of the third paper: First, it is found that each component of the management control system is used mainly for one purpose, either to coordinate (budgeting, cost allocations and transfer prices) or to monitor (performance measurement and governance mechanisms). Second, the larger the partners experience the more intensively management control systems are used, and the more they are used for coordination purposes. Third, besides considering other factors such as commitment and fit, the more intensively management control systems are used and the more they are used to coordinate the better the performance, but for

high levels of JV performance the coordination uses starts to decrease in front of monitoring indicating that there exists an optimal balance between them that maximizes the performance.

The results reported here support the existing literature predictions that management control systems are mainly used to reduce the uncertainty in highly uncertain environments such as JVs, providing some evidence on how management control systems are configured, designed, and used to improve JV performance.