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THE MANAGEMENT CONTROL EXERTED BY AMERICAN AND JAPANESE MULTINATIONAL CORPORATIONS OPERATING IN THAILAND

Abstract:

With subsidiaries operating in various countries, MNCs find themselves surrounded by the complexity and cultural diversity that are different from their home countries. MNCs need to develop and choose the appropriate degree of management control to exert on their subsidiaries. The objectives of this research are (1) To study the factors that influence the degree of management control used by MNC headquarters on their subsidiaries in Thailand; (2) To study the degree of management control that American and Japanese MNCs exerted on their subsidiaries in Thailand; (3) To study the variables that influence the effectiveness of both American and Japanese subsidiaries in Thailand; and (4) To study the effect of management control exerted by American and Japanese MNCs on their subsidiary effectiveness. The research uses a survey-based method to examine American and Japanese subsidiaries operating in Thailand. The results indicate that (1) the degree of MNC ownership plays an essential role in determining the degree of each type of control system that the parent company might choose to control its subsidiaries; (2) the Nationality of MNC have influence the degree of control employed over their subsidiaries; (3) Cultural distance also plays as an important role in determining the degree of particular types of control; (4) Decision-making structure influences only the degree of output control used over the subsidiaries, but does not influence the degree of input control. The findings also indicate that American companies use both input control and output control more than do Japanese companies. Regarding the effectiveness of MNC's subsidiaries, cultural distance is the only contextual factor found to play an important role in achieving the effectiveness of the subsidiary. In addition, the degree of input control used by American and Japanese MNCs over their subsidiaries in Thailand does not play an important role in determining the effectiveness of the subsidiary. On the other hand, output control will influence the subsidiary effectiveness when considered with other contextual factors. In summary, the subsidiaries will achieve high or low effectiveness when the degree of output control used over it are considered or examined with other contextual variables.

Keywords:

MNCs, Management Control, Input Control, Output control, Degree of management ownership, Nationality of MNC, Cultural distance, Decision-making structure

JEL Classification: M16, F23

INTRODUCTION

Businesses are now becoming more competitive in the modern world as international trade and investment have increased dramatically. Most companies are doing business abroad and make the world become smaller and smaller in every aspect of life. This increasing integration in the world economy has been brought about largely by multinational corporations (MNCs). MNCs are facing an increasingly competitive landscape. With subsidiaries operating in various countries, MNCs find themselves surrounded by the complexity and cultural diversity that are different from those they have faced by domestic corporations. International expansion has a number of advantages for corporations, including higher growth potential and access to cheaper resources and labor. However, organizational theorists have drawn attention to the challenges associated with the management of MNCs (Forbes, 2010). Therefore, the focus of management control is a very important concern in a multinational setting.

MNC is defined as a corporation that has its facilities and other assets in at least one country other than its home country. MNCs have experienced a dramatic shift in their global business environment in the last couple of decades. Significantly, they are workplaces where different ethnicities and cultural values are intertwined. Usually, three types of employees compose MNCs: (1) parent-country nationals (expatriates) – employees who have the same nationality as the parent company; (2) host-country nationals – employees whose nationality is the same as the host company; and (3) third-country nationals – employees whose nationality is different from either the parent or the host company. In the multinational workplace, these three types of workers often bring different attitudes, values and goals to share among each other, thereby causing some interpersonal conflicts (Chang, 1993). MNCs have to face cultural differences that strongly affect their ability to deploy and manage business-critical applications. Therefore, control is a fundamental managerial task in all firms; it has taken on increased importance in the international context. A MNC's major challenge is how to integrate their diverse operations in various countries in the presence of strong pressures for fragmentation and national responsiveness (Beechler, 1990).

This research attempts to investigate the mechanisms used by MNCs to obtain management control over the uncertainty surrounding the management of their foreign

subsidiaries. This research is to conduct a theoretically based examination of the effect of the management control exerted by American and Japanese MNCs on the effectiveness of their subsidiaries in Thailand. The study uses agency theory and the literature of various contextual factors to help explain how MNC ownership, the nationality of MNC headquarters, national cultural distance, decision-making structure, and industry characteristics determine the degree of control exerted.

Since foreign direct investment has been an important element of Thailand's economic development process and the country is an important FDI destination. Therefore, the population examined in this research consists of American and Japanese subsidiaries in Thailand. The American Chamber of Commerce reports a list of about 800 American-related companies operating in Thailand as of 2015 while the Embassy of Japan in Thailand, reported in December, 2014 that 1,615 Japanese companies are registered at the Japanese Chamber of Commerce in Thailand. These data support the important roles played by Japan and the U.S.A. as the major investors in subsidiaries in Thailand, and the suitability of Thailand as a site for this research. In addition to their large investments in Thai subsidiaries, Japan and the U.S.A show distinctly different characteristics in their cultures as well as wide variances in their management styles. Management styles that appears to be effective with Japanese or American employees in home countries but may not appropriate for Thai employees due to difference in their respective cultures (Jarinto, 2011). Therefore, the U.S.A. and Japan can be considered fitting parent countries in which to study the effects of nationality on the degree of particular types of management style used by MNCs. The objectives of this research are as follows:-

- (1) To study the factors that influence the degree of management control used by MNC headquarters on their subsidiaries in Thailand.
- (2) To study the degree of management control that American and Japanese MNCs exerted on their subsidiaries in Thailand.
- (3) To study the variables that influence the effectiveness of both American and Japanese subsidiaries in Thailand.
- (4) To study the effect of management control exerted by American and Japanese MNCs on their subsidiary effectiveness.

LITERATURE REVIEW

Management control can be defined as the process whereby a company sets itself performance objectives and strives to achieve them as best it can over time. It is a method for managing the performance of the company (Giraud, 2011 et al.) A management control system is imperative to every multiple-manager organization. In the international environment, MNCs are characterized as a group of geographically dispersed and goal-disparate organizations (Ghoshal & Barlett, 1990). Focusing on the flows of knowledge between MNC subsidiaries, Gupta and Govindarajan (1991) suggest that different subsidiaries play different roles in implementing corporate strategy. American management style has been called the International Organization Model. The key objective is to transfer knowledge and expertise to subsidiaries adapted to the cultural environments. The subsidiaries are usually less advanced in technology or market development while the headquarters gives strategic plans to subsidiaries to coordinate and follow. These plans need to be aligned with the culture of the subsidiaries. It is necessary for the corporate headquarters to learn about the organization culture from employees in the subsidiaries (Christopher et al, 2002). Japanese management style has been called a Global Organization Model. Its global strategies are based on centralization of assets, resources, and responsibilities in order to achieve economy of scale. The role of subsidiaries is to produce, assemble and sell, but headquarters determines the goals, roles, policies, and procedures with little adaptation from the subsidiaries (Christopher et al, 2002).

Agency theory is presented as the theoretical background of this research. Agency theory is related to the control system of the operations from an ownership or stockholder perspective (Huse & Eide, 1996). It was developed in the 1960s as an attempt to model the relationship between the principal and the agent. Agency theory is used to investigate the survival of organizations when there is a separation of ownership and control in a multinational company (Beldona, 1997). Agents and principals entered into these relationships because of the benefits of specialization and because of the ability to control agency problems by the separation of decision making and risk bearing parties. This theory investigates the agency problem that occurs when two parties have different goals or desires (Logan, 2000).

Control systems differ based on the means used to exercise control. There are three types of control that organizations use in various combinations: Output-based system, behavior-based system, and input-based system. The three types of control systems differ in how they seek to align organizational actions to stated objectives. Output-based systems focus on results, behavior-based systems focus on the process of work, and input-based systems focus on the antecedent conditions to performance, such as knowledge, skills, abilities, values and motives of employees (Muralidharan & Hamilton, 1999). Snell (1992) and Hamilton & Kashlak (1999) describe the three types of control in different aspects as follows:

(1) Output Control is the style of control that can be measured by analyzing a MNC along the following dimensions: the degree to which a firm uses evaluations with significant weightings on results, pay is based on performance, pre-established targets are used for evaluating personnel; numerical records are used as indices of effectiveness, performance is linked to concrete results, and appraisals are based on achieving goals with lack of achievement resulting in low ratings.

(2) Input Control is the style of control that can be measured by assessing the degree to which a MNC: provides substantial training before assuming responsibility, establishes the best staffing procedures available, becomes involved in the skill development of an employee, performs multiple evaluations before hiring an individual, provides opportunities for broadening a skill set of an employee takes pride in hiring the best employees possible, and has an overall commitment of the firm to training and development.

In this research, American and Japanese MNC's headquarters are considered as the principals and the foreign subsidiaries in Thailand are considered as the agents. As the principal, the MNC's headquarters can not effectively make all decisions in the foreign subsidiary since the local interests of subsidiaries may not always be aligned with those of the MNC's headquarters as a whole. The relationship between the headquarters and the subsidiaries may lead to agency problems since subsidiaries operate in environments that are very different from those of the headquarters (Beldona, 1997).

HYPOTHESES

With subsidiaries operating in various countries, MNCs find themselves surrounded by the complexity and cultural diversity that are different from those faced by domestic corporations. The complexity of the various external operating environments in the host country has the potential to significantly alter country-specific results and is beyond the control of the subsidiary managers. The different subsidiaries play different roles in implementing corporate strategy. This variety of roles complicates the selection of an appropriate control system. Hence in order to compete successfully in the global business and to sustain a competitive advantage in the international scene, MNCs need a comprehensive strategy that is successfully implemented.

Degree of Ownership and Control Systems

Chang (1993) noted in his research about agency theory that ownership structure affects the choice of control in MNCs. He found that as the ownership of a MNC's subsidiary increases, the degree of control exerted by the parent company of the subsidiary also increases. In order for managers to be able to directly control a foreign subsidiary, theoretically they are supposed to have more ownership of the subsidiary. Using the studies of Chang (1993) and Beldona (1997), the degree of ownership by the parent company is expected to influence the degree of control used in MNC subsidiaries. With a higher degree of ownership, managers can reduce their risks by directly controlling the activities of the subsidiaries. The more they own, the more control they have. Therefore, the degree of agency control used by the parent company is predicted by the degree of ownership of headquarters in the foreign subsidiaries. With a high degree of ownership in the foreign subsidiary, the degree of either input control or output control is expected to increase.

Moreover, when the degree of ownership by the parent is high, output control used by the parent should be higher than input control. This is because output control is the way to control its subsidiaries in the form of more frequent reporting to the headquarters whereas input control requires performance reporting less frequently from the subsidiaries (Chang, 1993). Accordingly, the hypotheses of the relationship between the degree of ownership and control systems would be expressed as follows:

Hypothesis 1: The degree of MNC ownership of a subsidiary will influence the degree of control over its subsidiary.

- H 1.1): The higher the degree of ownership by the parent company of a subsidiary, the higher the degree of input control used by the parent.
- H 1.2): The higher the degree of ownership by the parent company of a subsidiary, the higher the degree of output control used by the parent.

Nationality of MNC and Control Systems

Chang (1993) explains that American companies focus on output control while Japanese companies focus on input control. Hodgetts & Luthans (2014) explain that control in American MNCs focuses more on the quantifiable, objective aspects of a foreign subsidiary. The MNCs require more precise plans and budgets in generating suitable standards for comparison. Kreder and Zeller (1988) also suggested that there is less participation and employee-orientation in American companies because employees' personal problems are rarely discussed. American managers emphasize employee relative independence. Since American systems pursue efficiency and high performance through the application of quantifiable measures and need less participation of the employees, managers are likely to focus heavily on outcomes (Chang, 1993). Japanese MNCs rely more heavily on the use of input control than American MNCs. Japanese MNCs assigned parent country nationals (PCNs) more extensively to their CEO positions than American MNC's did (Chang, 1993). Fukuda (1992) noted the differences of staffing strategies between American and Japanese MNCs in that the American style prefers selecting and promoting able individuals regardless of their nationalities while Japanese MNCs have the tendency of filling a high percentage of senior management positions with PCNs sent from the home country. Similarly, Hofstede (1993) found that the core of Japanese companies is the permanent worker group; workers who for all practical purposes are tenured and who aspire to life-long employment. The Japanese management styles of life employment and seniority are thought to generate a psychological reluctance to hire foreigners. These explanations regarding Japanese

management styles show that Japanese MNCs focus heavily on the input basis of control. The assumptions based on the above arguments lead to the following hypotheses:

Hypothesis 2: The nationality of MNC will influence the degree of control over its subsidiaries.

- H2.1): For American MNCs operating in Thailand, the degree of input control and the degree of output control used by the parent company will be relatively low and high respectively.
- H2.2): For Japanese MNCs operating in Thailand, the degree of input control and the degree of output control used by the parent company will be relatively high and low respectively.

Cultural Distance and Control Systems

Hamilton & Kashlak, (1999) noted that cultural distance affects work values, managerial decisions, patterns of negotiations, overseas entry modes, and the degree of partner reciprocity, etc. The greater the extent to which an organization's headquarters and subsidiaries are culturally distant, the more difficult it becomes to effectively supervise the various agents (Gomez-Meija & Palich, 1997). According to the agency theory perspective, agency costs will increase relative to cultural distance (Roth & O'Donnell (1996). When the degree of cultural distance decreases, the cost of adapting an MNC's control system to the host country subsidiary will also decrease (Gomez-Meija & Palich, 1997). Since the distance between national cultures significantly influences decision-making and strategies, it is proposed that the degree of cultural distance is an antecedent condition affecting the MNC selection of a control system. When cultural distance between the home country and the host country is high, the probability of using an input control system should increase because of the higher transaction costs associated with output or behavior control. The probability of using input control should increase as the parent company's ability to effectively employ output control declines (Hamilton & Kashlak, 1999). The preceding arguments lead to the following hypotheses:

Hypothesis 3: The cultural distance between the home and the host countries will influence the degree of control over its subsidiaries.

- H3.1): The greater the cultural distance between the home and the host countries, the higher the degree of input control that will be used by the parent company.
- H3.2): The smaller the cultural distance between the home and the host countries, the higher the degree of output control that will be used by the parent company.

Decision Making Structure and Control Systems

Decision-making authority in a subsidiary should be centralized or decentralized depending on the subsidiary's strategy (Beldona, 1997). Principals always bear uncertainty and risk about what the agents are normally doing (Chang & Taylor, 1999). Determining the performance of the agent by evaluating the agent on the basis of output will be costly to the headquarters because they can be affected by several factors in uncertain environments such as economic conditions and competitors' actions. Therefore, in high uncertainty situations, such as decentralized firms, input control is more appropriate (Beldona, 1997). This implies that the degree of input control used by the parent will be high and the degree of output control used by the parent will be low in decentralized firms. Conversely, when uncertainty is low, as in the centralized firms, the degree of output control used by the headquarters will increase while the degree of input control used by the headquarters will decrease. The hypotheses regarding decision-making structure are as follows:

Hypothesis 4: The type of decision-making structure will influence the degree of control a parent company will have over its subsidiaries.

- H4.1): The higher the degree of centralized decision making, the lower the degree of input control that will be used by MNC over its subsidiaries.
- H4.2): The higher the degree of centralized decision making, the higher the degree of output control that will be used by MNC over its subsidiaries.

- H4.3): The higher the degree of decentralized decision making, the higher the degree of input control that will be used by MNC over its subsidiaries.
- H4.4): The higher the degree of decentralized decision making, the lower the degree of output control that will be used by MNC over its subsidiaries.

RESEARCH METHODOLOGY

This research used a survey-based methodology. Data were collected through the administration of questionnaires to top managers (Vice President and above) of both American and Japanese subsidiaries operating in Thailand. The questionnaires were mailed to the presidents of those subsidiaries in order to obtain their reports about the control practices used by their parent companies. American and Japanese subsidiaries were selected for this study because they are the two major investing countries in Thailand and their countries are considerably different when the cultural dimensions of Hofstede are measured.

The questionnaires were prepared in English for use by American respondents and in Japanese for use by Japanese respondents. Each item of the translated questionnaires was rechecked carefully by a Thai-Japanese translator. Questionnaires were sent to twenty randomly selected companies for a pilot test. The sample of this study was composed of American and Japanese subsidiaries in Thailand. American subsidiaries are member companies and associations of the American Chamber of Commerce. The names of top managers and companies were selected from the "Directory of American Chamber of Commerce," Japanese subsidiaries were selected from the "Factory Directory in Thailand".

The selection of both American and Japanese subsidiaries operating in Thailand was made randomly provided. A list of the top managers had to be available on the directories and the subsidiaries had to be operating in Thailand for at least three years. A total of eight hundred questionnaires were mailed out to American and Japanese subsidiaries. There were 400 questionnaires for American and 400 questionnaires for Japanese companies. A total of 219 usable questionnaires were received in return. 111

questionnaires were from American subsidiaries and 108 questionnaires were from Japanese subsidiaries. The response rate was 27.75% for the American sample and 27% for the Japanese sample.

RESULTS

1) Degree of MNC Ownership and Control Systems

Hypothesis 1 investigates the effect of MNC ownership on the degree of subsidiary's control. It states that the degree of MNC ownership of a subsidiary will influence the degree of control over its subsidiary.

The hypothesis 1.1 is supported as the results showed a significant positive effect of the degree of MNC ownership on the degree of input control ($B = .155, p < .05$) such that as the degree of ownership increased, so did the degree of input control. The results also support the hypothesis 1.2 ($B = .289, p < .001$) indicating that the degree of ownership by the parent has a significant positive effect on the degree of output control used by the parent. When the degree of ownership increased, the degree of output control also increased.

As predicted in the above hypotheses, the effect of these two variables is positive, such that as the degree of ownership increased, so did both degrees of input and output controls.

2) Nationality of MNC and Control Systems

Hypothesis 2 investigates the effect of the nationality of MNC on the degree of agency control. It states that the nationality of MNC will influence the degree of control over its subsidiaries.

The results do not support the hypothesis 2.1 ($t = 3.044, p < .01$). This indicates that the degree of input control used by American MNCs over their subsidiaries in Thailand is not low, but is in the moderate level. Whereas, the results of output control exerted by the American MNCs over their subsidiaries operating in Thailand is relatively high ($t = 11.221, p < .001$).

The results also do not support the hypothesis 2.2 ($t = -14.844, p < .001$). This indicates that the degree of input control used by Japanese MNCs over their subsidiaries

in Thailand is relatively low. Furthermore, it also indicates that the degree of output control exerted in Japanese subsidiaries operating in Thailand is not low. The degree of output control is in the moderate level ($t = 7.785$, $p < .001$). In addition, this indicates that for Japanese MNCs the degree of output control is considerably higher than the degree of input control.

A different way to test Hypothesis 2 is to compare the differences between Japanese subsidiaries and American firms on the level of both input control and output control. T-tests reveal that there is a significant difference between American subsidiaries and Japanese subsidiaries in the use of input controls. American firms use a higher level of input control than do Japanese firms ($t = 3.044$, $p < .01$ for American and $t = -14.844$, $p < .001$ for Japanese). T-tests also reveal that there is a significant difference between Japanese subsidiaries and American subsidiaries in the use of output controls. American subsidiaries use a higher level of output control than do Japanese firms ($t = 11.221$, $p < .001$ for American and $t = 7.785$, $p < .001$ for Japanese). It can be concluded that American firms use an overall higher level of control than do Japanese firms. This lends strong support for Hypothesis 2.

3) Cultural Distance and Control Systems

Hypothesis 3 investigates the cultural distance on the degree of agency control. It states that the cultural distance between the home and the host countries will influence the degree of control over its subsidiaries. For hypothesis 3.1 the results show a significant negative effect between two variables ($B = -.360$, $p < .001$). This implies that when the cultural distance is greater, the degree of input control used by the parent companies is less. Therefore, the hypothesis is not supported.

However, the hypothesis 3.2 hypothesis is supported by the results ($B = -.311$, $p < .001$). As predicted, the direction of this effect is opposite, such that when the cultural distance between the home country and the host country is close, the probability to use output control is high.

4) Decision Making Structure and Control Systems

Hypothesis 4 investigates the effect of the type of decision-making structure on the degree of subsidiary control used by the parent company. It indicates that the type of decision-making structure will influence the degree of control a parent company will have over its subsidiaries.

The results do not support the hypothesis 4.1. When the degree of centralized decision making is high, the degree of input control used by the parent company over its subsidiaries is not relatively low ($M= 2.7845$, $p > .05$). Instead, this indicates a moderate degree of input control. For hypothesis 4.2, the results show that there is a significant effect between these two variables ($M=3.9914$, $p < .001$). This indicates that when the degree of centralized decision making is high, the degree of output control used by the parent companies will increase. Therefore, the results support this hypothesis. The hypothesis 4.3 is not supported because the results show that when the degree of decentralized decision making is high, the degree of input control used by the parent company is low ($M=2.5629$, $p < .001$). The results also do not support the hypothesis 4.4 ($M = 3.6615$, $p < .001$), indicating that when the degree of decentralized decision making on the subsidiaries increases, the degree of output control used by the parent companies will also increase.

DISCUSSION

Research Objective 1: To study the factors that influence the degree of management control used by MNC headquarters on their subsidiaries in Thailand.

The study investigates the effects through four independent variables: degree of MNC ownership, nationality of MNC, cultural distance, decision-making structure. The following variables are described:

(1) Degree of MNC Ownership - This study supports agency theory propositions regarding the influence of the degree of MNC ownership on the degree of input control and output control used by the parent company. The degree of MNC ownership was found to directly relate to both input control and output control. The effect of these two variables is positively correlated such that when the degree of ownership increases, the degree of

either input control or output control also increases. This is in accordance with Chang's study (1993). In addition, the results show that when the degree of ownership by the parent company increases, the degree of output control would be higher than the degree of input control used by the parent company. This may be because when the degree of ownership by the parent is high, output control, which is the way to control its subsidiaries in the form of more frequent reporting to the headquarters, is probably more widely used by the parent company than input control, which requires less performance reporting from its subsidiaries (Chang, 1993). In conclusion, the degree of ownership affects the degree of agency control used by the headquarters. Increases in either the degree of input control or the degree of output control are influenced by an increase in the degree of ownership.

(2) Nationality of MNC – nationality of MNC headquarters was predicted to affect the degree of agency control exerted by the parent company. In comparison, American companies are found to use a high degree of both input control and output control whereas Japanese companies are found to use a lower degree of both input control and output control. Many cultural research studies have suggested that American companies are more output oriented than Japanese firms while Japanese companies are more input oriented than American firms (Chang, 1993). But with these preceding results, it can be concluded that American companies are more concerned with agency control, either input control or output control, than Japanese firms. In summary, the nationality of MNC headquarters does influence the degree of subsidiary control used by the headquarters.

(3) Cultural Distance – Since cultural distance affects managerial decisions, MNCs should initially expand their businesses to overseas to the countries that are most similar in culture to its home country. It would help them more easily to implement and control their strategies. The findings show that the greater the cultural distance between the home country and the host country, the smaller the degree of input control exerted by the parent company; conversely, the smaller the cultural distance between the host country and the home country, the higher the degree of input control used by the parent company. When the cultural distance of both countries is close, all strategies and management practices provided by the headquarters are easier to understand and accept by their subsidiaries as they have similar cultures.

Regarding output control, the researcher predicted that the smaller the cultural distance between the home country and the host country, the higher the degree of output control that would be used by the parent company. The findings support the prediction that when the cultural distance between the host country and the home country is close, the degree of output control exerted by the parent company is high. On the other hand, when the cultural distance is distant, the degree of output control used by the parent company is low.

In conclusion, cultural distance influences the degree of both input control and output control used by the headquarters. This affects the degree of agency control. Conversely, the greater the cultural distance between the home and the host countries, the smaller the degree of both input control and output control that will be used by the parent company. On the other hand, the smaller the cultural distance between the home and the host countries, the higher the degree of both input control and output control that will be used by the parent company. These findings may be explained by the following: 1) when the cultural distance between the headquarters and the affiliates is close, it is easier for the headquarters to control its subsidiaries so that the degree of control used by the parent is increased; 2) when the cultural distance between the headquarters and the affiliates is distant, it is more difficult for the headquarters to control its subsidiaries so that the degree of control used by the parent decreases.

(4) Decision Making Structure – The prediction indicated that the degree of decision-making structure (centralization and decentralization) used by the parent company will influence the degree of a parent company's control over its subsidiaries. This study found that there is no significant relationship between the decision-making structure (both centralization and decentralization) and the degree of input control used by the parent company. On the other hand, there is a significant effect between the decision-making structure (both centralization and decentralization) and the degree of output control used by the parent company. The study also found that when the degree of centralization increases, the degree of output control used by the parent company will also increase. On the other side, when the degree of decentralization increases, the degree of output control used by the parent company will increase. In summary, the decision-making structure influences only the degree of output control used by the

headquarters, but doesn't influence the degree of input control used by the parent company.

The preceding discussions lead to the conclusion that MNCs need to consider the degree of MNC ownership, nationality of MNC, cultural distance, and decision-making structure when designing a control system for the subsidiaries.

Research Objective 2: To study the degree of management control that American and Japanese MNCs exerted on their subsidiaries in Thailand.

The results show that the nationality of MNC would affect the degree of agency control exerted by the parent companies. The findings show that the degree of output control is greater than the degree of input control for either Japanese or American subsidiaries operating in Thailand. The findings also show that American MNCs use a higher level of both input control and output control over their subsidiaries than do Japanese subsidiaries operating in Thailand. This is counter to many cultural studies which have suggested that Japanese companies are more input-oriented than American firms. The unexpected results that American firms use input control more than Japanese firms may be a result of the increase in output-focus by Japan. The results from this study also show that the degree of output control used in Japanese subsidiaries is greater than the degree of input control. Chang (1993) offers support for the idea that Japanese are more concerned about both performance and outcome measures than before. Moreover, the economy in Thailand has changed, with higher uncertainty; it is possible that output control rather than input control is getting greater attention than in the past by Japanese MNCs. Therefore, it is reasonable to find that Japanese firms may now try to exert more and more output control over their foreign subsidiaries.

Research Objective 3: To study the variables that influence the effectiveness of both American and Japanese subsidiaries in Thailand.

Among the contextual factors, the research found there is only one variable that influences the effectiveness of subsidiaries: cultural distance. The results show that cultural distance has a significant negative effect on subsidiary effectiveness ($B = -.313$, $p < .05$). This implies that the greater the cultural distance between the home and the host

countries, the lower the subsidiary effectiveness. On the other hand, the smaller the cultural distance between the home country and the host country, the higher the subsidiary effectiveness. This supports the idea that, since cultural distance affects managerial decisions, an MNC should initially invest their business abroad in countries that are most similar in culture to the culture of its home country (Hamilton & Kashlak, 1999). This is done in order to more easily implement and control its strategies and to get higher subsidiary effectiveness.

The other contextual variables in this study, which consist of MNC ownership, MNC nationality, and decision-making structure, are found have no significant effect on subsidiary effectiveness ($B > .05$). In summary, these variables have no influence on the subsidiary effectiveness. Only cultural distance plays an important role in affecting subsidiary effectiveness of American and Japanese subsidiaries in Thailand.

Research Objective 4: To study the effect of management control exerted by American and Japanese MNCs on their subsidiary effectiveness.

Input control and output control are statistically independent from each other as they relate to subsidiary effectiveness. The results indicate that input control has no significant effect on subsidiary effectiveness. On the other hand, output control has a significant negative effect on subsidiary effectiveness ($B = -.198, p < .05$). This means that the higher the degree of output control used by the headquarters, the lower the level of subsidiary effectiveness. However, according to the results obtained output control would have a significant negative effect on subsidiary effectiveness when combined with other contextual variables. This implies that the degree of output control used over a firm's subsidiaries should be considered in accordance with other contextual factors in this study. For example, when the degree of ownership increases, the degree of output control also increases. Even though these variables have a significant positive relationship, they may lead to low subsidiary effectiveness. This is because if the degree of output control used over its subsidiaries may be too high driving the subsidiary effectiveness to be low. Therefore, the parent company may wish to reduce the degree of output control used over their subsidiaries by considering other management practices.

CONCLUSIONS

The line of research presented in this study is critical as MNCs expand their inter-organizational relationships across global markets. Control and coordination issues become increasingly more complex as the MNCs focus on identifying mechanisms to ensure effectiveness of the different types of subsidiaries within their global networks (Ellis, 2000). From a theoretical standpoint, this research studies the degree of agency control by investigating various contextual factors that affect the degree of control exerted by the headquarters of MNCs. The study gives a more comprehensive picture of MNC control than has been offered by previous studies. In the international setting, this research focuses on both input control and output control used by American and Japanese MNCs over their subsidiaries in Thailand. It investigates the significant effect between various variables and the degree of certain types of control. The results show that the degree of input and output controls exerted by their headquarters is affected by such variables as: (1) Degree of ownership, which plays an essential role in determining the degree of each type of control system that the parent company might choose to control its subsidiaries; (2) Nationality of MNC, which could also have influence the degree of control employed over their subsidiaries (American companies use both input control and output control more than do Japanese companies); (3) Cultural distance also plays as an important role in determining the degree of particular types of control; (4) Decision-making structure appears to influence only the degree of output control used over the subsidiaries, but does not influence the degree of input control.

In addition, the degree of input control used by American and Japanese MNCs over their subsidiaries in Thailand does not play an important role in determining the effectiveness of the subsidiary. On the other hand, output control will influence the subsidiary effectiveness when considered with other contextual factors. The degree of output control will have a significant negative relationship on the subsidiary effectiveness. In summary, the subsidiary will achieve high or low effectiveness when the degree of output control used over its subsidiaries is considered or examined with other contextual variables.

This research has identified the importance and difficulties of how to consider the various factors and the degree of particular types of control for MNCs in a global economy. In order for a MNC to compete successfully and achieve high effectiveness, it needs a comprehensive strategy to be successfully implemented. Because an appropriate control system is the critical linkage to ensure efficiency and effectiveness in the organization, senior management needs to create the appropriate parent-subsidary control system that fits each country individually. Choosing the appropriate type of control system and estimating the appropriate degree of a particular type of control has become more difficult as MNCs increasingly compete around the world in countries with greater cultural distance, fluctuating government restrictions, and immense economic instability. MNCs are increasingly forced to rely on both input control and output control. To help the companies create and sustain their competitive advantages in a global economy, senior management can design headquarters and subsidiary control systems that will maximize the effectiveness of the corporate strategy (Hamilton et al, 1996). This can eventually lead to the achievement of long-term viability and significantly improve performance at both the subsidiary and headquarters levels.

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