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Management Control System of Multinational Companies: Is it Necessary to Adapt?

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ABSTRACT*:* This research presents a literature review regarding the study of management control systems in multinational companies, exploring the different control mechanisms implemented and the factors that influence them. Researchers have reviewed 49 articles related to this topic in journal searches on Scopus and Science Direct. Then, 25 articles were obtained that could be analyzed to provide a series of discussions. Multinational companies need to complement result control mechanisms with action control and be integrated with social control to adapt to geographical distances or differences in culture, regulations, and business environments abroad. The use of tight or imposing controls will limit the flexibility and the process of adaptation to the needs of the foreign subsidiary.

KEYWORDS*:* Management Control Systems, Multinational Companies, Control Mechanisms, Foreign Subsidiary

I. INTRODUCTION

One of the drivers of globalization is the increasingly rapid development of technology (Khan et al., 2021). Globalization can transform the world into a unity that is manifested in the form of interconnectedness among nations and among people, such as in the areas of trade, communication, investment, travel, and culture. The development of technology and globalization has an impact on the business world. Changes in the international environment in finance, human resources, technology, politics, economics, and social conditions have created opportunities for companies to expand their business reach at a much faster pace (Kumar & Liu, 2005). Companies not only operate in the country of origin of their founders, but often expand and establish branches or subsidiaries abroad. These companies can be referred to as multinational companies (MNCs).

Multinational companies that have branches or subsidiaries abroad need to adapt to the economic, political, and other conditions in the host country (Endenich et al., 2011). One of the challenges for MNCs is how to transfer management control (MC) across national borders with different environments (Harrison & McKinnon, 1999) Multinational companies must not only be able to coordinate different business units, but must also be able to overcome the challenges of geographical and cultural differences in order to adapt to the environment of the country in which they are located. MC helps organizations adapt and align employee actions with organizational goals (Chow et al., 1999). Several factors can influence the implementation and effectiveness of control mechanisms in MNCs.

A literature review of research on the relationship between head office and subsidiaries was discussed by Kostova et al. (2016) and shows complexities for multinational companies, one of which is related to expatriate management and global HRM. The literature review comes from a collection of similar articles in the Journal of World Business from 1968 to 2015, discussing the relationship between headquarters and subsidiaries. A literature review of empirical studies on management control systems (MCS) in emerging markets states that management accounting systems are part of an organization's control system that is important in providing information to help managers control their activities and reduce environmental uncertainty to achieve organizational goals (Farida et al., 2022). Multinational companies, which operate in different countries with different characteristics, certainly need to consider the factors that influence the company when designing the MCS. Therefore, this study presents a systematic literature review of how MCS studies are described in multinational companies and explores MCS in the multinational company environment. For this purpose, the researchers reviewed 49 related articles through journal searches in Scopus and Science Direct.

II. LITERATURE REVIEW

Multinational Company (MNC)

A multinational company (MNC) is defined as a geographically dispersed corporate entity, comprising a headquarters and subsidiaries located in disparate countries. MNCs are required to interact with local businesses, including customers, suppliers, and regulators, across national borders (Ghoshal & Bartlett, 1990). MNCs are characterized by high complexity, a quality also observed in diversified and decentralized domestic companies (Kostova et al., 2016). MNCs must be capable of surmounting geographical and cultural challenges and must adapt to the host country environment (Merchant & Van der Stede, 2017).

Global markets may be formed in a number of ways, including the establishment of fully controlled subsidiaries, the acquisition of existing companies in other countries, or the formation of joint ventures with overseas partners (Yiu & Makino, 2002). The coordination of overseas partners introduces an additional layer of complexity to the management and control of activities, rendering joint ventures a distinct context of business entities due to their inherent lack of complete control (Ding, 1997). The examination of management control in joint ventures is inextricably linked to the dynamics of the partnership and the safeguarding of interests in the contributions of each party. Consequently, references pertaining to joint ventures are excluded from this study.

Management Control System

A management control system (MCS) is comprised of a set of management controls (MC), which serve as a conduit for the aggregation and utilization of information, thereby facilitating the coordination of comprehensive planning and control within an organizational structure (Horngren C.T. et al., 2012). MC facilitates the adaptation and alignment of employee actions with organizational goals (Chow et al., 1999). Management control (MC) is defined as the systems, rules, practices, values, and other management activities that are applied to direct employee behavior (Malmi & Brown, 2008). Strategic control is concerned with environmental factors and external challenges, such as competition in the product market. In contrast, management control (MC) is focused on internal activities that influence employee behavior in accordance with predetermined targets (Merchant & Van der Stede, 2017).

Multinational company (MNCs) utilize a range of control mechanisms to facilitate the coordination of units across the globe, ensuring alignment with the organization's global objectives (Harzing & Sorge, 2003). One control mechanism, namely result control, can engender a high level of concern among employees regarding the consequences of their actions. In this approach, the organization relinquishes its directive role and instead empowers employees to take actions that they believe will produce the desired results (Merchant & Van der Stede, 2017). The second mechanism, action control which (Brenner & Ambos, 2013) refer to as "process control," can determine the desired behavior of employees, including the implementation of standardization measures to ensure compliance with the specified process. The subsequent mechanism is social control, which serves to internalize the organization's culture and values in order to foster acceptance of formal control mechanisms (Brenner & Ambos, 2013). Subsequently, the extent of control indicates the tightness of control carried out by the organization to achieve its goals, for example in terms of frequency, accuracy, and combination of various MCs (Merchant & Van der Stede, 2017).

III. RESEARCH METHOD

This research is a qualitative research using the systematic literature review (SLR) method. This method is used for various purposes such as identifying, reviewing, evaluating, and interpreting various interesting research topics to discuss (Cardina et al., 2022). This research method refers to the method used by (Hesford et al., 2006), namely charting field. In this study, quality publication sources are searched and determined, and then a topic is mapped from different perspectives of related scientific publications.

This study analyzes articles on management control systems (MCS) in multinational companies collected from articles in journals (accounting, business, management, economics, and finance) through the Scopus and Science Direct search sites. Articles with titles, abstracts, and keywords containing "manage* control*" or "control* system" are collected to be relevant to management control systems. Then, to search for articles relevant to multinational companies, the AND function "multinational*" or "international*" is added. The multinational search also adds multiple equivalents of the words "company" and "firm". The addition of asterisks in the search is to capture variations in the results, such as between "management" and "managerial".

The search results yielded 49 articles published between 2001 and 2023. Furthermore, the articles were sorted to determine their suitability with the topic of Management Control Systems (MCS) in multinational companies. First, there was 1 article in Spanish, so it was excluded from the analysis because the author limited it to articles in English. This was done to ensure a comprehensive and high-quality review (Ibrahim et al., 2022) and that non-English studies were reviewed separately by authors with appropriate language skills (Nguyen et al., 2020). Second, this study limited it from discussing companies in the form of joint ventures as described in the theoretical review, so there were 7 articles that were excluded. This left 41 articles. Third, in the analysis process, there were 16 articles where MCS was not used as a variable or main discussion. Thus, there are 25 articles that can be described and linked to provide a description and exploration of the development of MCS in multinational companies.

IV. RESULT AND DISCUSSION

Classification of Items by Publication Period

Based on 25 articles further analyzed, this study can provide an overview of the research journey related to MCS in multinational companies. Related research has grown rapidly in 2008 (Figure 1). This growing research interest can be attributed to evolving economic and regulatory dynamics globally. In addition, 2008 was known as a period of global economic crisis, which most likely affected the management control system.

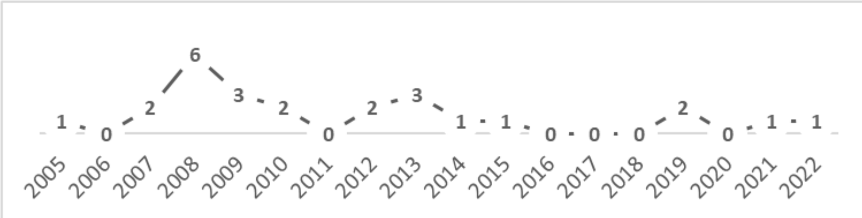

Figure 1. Research Trend Related to MCS in Multinational Companies

Source: The author's processed results

Classification of Articles Based on Publisher Journal

This study can provide an overview of which journals dominate in publishing studies on MCS in multinational companies (Table 1). The five journals mentioned in the text below are from the United States and United Kingdom, which are both important sources of management control system study. Management Accounting Research is the dominant journal in this study. The journal is included in the Q1 ranking.

Table 1. Top 5 Publisher Classification of Articles

Journal title	Country	Number of items
Management Accounting Research	United States	4
Accounting, organizations, and society	United Kingdom	2
European Accounting Review	United Kingdom	2
International Journal of Accounting, Auditing and Performance	United Kingdom	2
Qualitative research in accounting & management	United Kingdom	2

Source: The author's processed results

Classifying Articles Based on Research Techniques

The diversity of research methods can provide a broader picture of the science that is being studied. This study can provide an overview of the research methods and techniques used in the study of MCS in multinational companies (Table 2). Quantitative and qualitative research methods were used to study MCS in MNCs. Two studies used a combination of quantitative and qualitative methods.

Table 2. Classification Of Articles Based on Research Techniques

Method	Technique	Quantity	Percentage
Qualitative	Interview	6	24%
	Case study	6	24%
	Case study + Interview	2	8%
Quantitative	Survey	9	36%
Mixed	Survey + Interview	2	8%
Total		25	100%

Source: The author's processed results

Classification of articles on the basis of the research location

The location of the MCS study in multinational companies includes research at headquarters and subsidiaries. Most of the research is dominated by headquarters research in Europe. While research on management in subsidiaries is dominated by China and some Middle Eastern countries.

Result Control in Multinational Companies

Result control has been studied in several articles related to the MCS of multinational companies. Parent companies (parents) distribute performance measurement systems (PMS) to subsidiaries and influence their decisions (Busco et al., 2008; Dossi & Patelli, 2008; Mahlendorf et al., 2012; Rodrigues et al., 2021). Performance measurement systems typically use financial measures (Abdallah & Alnamri, 2015; Kihn, 2008) because they are more easily accepted and globally comparable (Dossi & Patelli, 2010). Meanwhile, non-financial measures are also often used to complement performance measurement systems but do not replace financial measures (Dossi & Patelli, 2010; Kihn, 2008). Non-financial measures can help compensate for weak control in unstable environments by integrating a more complete performance measurement perspective (Du et al., 2013).

Result control in the form of performance measurement systems in foreign subsidiaries is hardly adapted to the conditions of the country in which the company is located (Hoffjan & Weide, 2009; Kihn, 2008). On the other hand, in order to comply with certain regulations of a country, subsidiaries develop local performance measures to complement the global performance measurement systems of multinational companies (Dossi & Patelli, 2008). Cultural differences may influence performance measurement policies (Jwijati et al., 2023).

Performance measurement systems are often associated with incentives to align subsidiary management decisions with the objectives of the parent company or holding company (Mahlendorf et al., 2012). Incentives can be based on financial performance measures or on non-financial measures to broaden the focus on long-term goals (Dossi & Patelli, 2010).

Action Control in Multinational Companies

Process control or action control in MNC companies has been the subject of research in relation to the rules of the head office country (Van der Stede, 2003). The study also introduced Management Control and Incentive Systems (MCIS), which need to be selected in accordance with the national culture of the business unit. Consideration of local issues in the country of the MNC subsidiary, such as language or legal requirements, is key to the successful implementation of a management information system (Avison & Malaurent, 2007).

Information asymmetry is common, especially in multinational corporations where the parent/headquarters is located in a different country and culture than the subsidiary. A centralized management style attempts to monitor operations intensively in order to provide information to decision makers at headquarters (Quattrone & Hopper, 2005). Global activity control can reduce information asymmetry between the headquarters and the subsidiary through standardization and monitoring.

On the other hand, activity control can limit the autonomy or decision-making rights of subsidiaries. In the case of high time pressure and intensity, it requires decentralization. Decentralization decisions depend on information asymmetry, interdependence, and the nature of activities (Ecker et al., 2013).

Strategic policies tend to be centralized, such as cross-border transfer pricing policies, which are bound by tax compliance requirements. Tax objectives and MCS objectives are trade-offs (Cools & Slagmulder, 2009). In the case of MCS, such policies further reduce the autonomy of subsidiaries (Cools et al., 2008). Transfer pricing affects subsidiary performance, so PMS and action control need to be adjusted to avoid demotivation and deviant behavior by management (Busco et al., 2008; Cools & Slagmulder, 2009).

MNCs rely on written procedures, standards, and job descriptions to control employee behavior in MNC subsidiaries to ensure compliance (Moilanen, 2008). However, the efficiency of behavioral control is limited because it inhibits flexibility (Cools & Slagmulder, 2009; Plesner Rossing, 2013).

Social Control in Multinational Companies

MNCs consider their international control activities through bureaucratic systems, but they realize that they need more cultural or social control (Neves & Bugalho, 2008). Social control mechanisms pave the way for process control and outcome control (Brenner & Ambos, 2013).

There is no universal MCS, multinational companies need to adapt MCS to the local culture (Du & Salameh, 2019). Multinational companies employ expatriate managers to reform corporate culture (Brenner & Ambos, 2013), transfer knowledge to subsidiaries (Moilanen, 2008), and ensure performance accountability and compliance with company procedures and rules (Chang et al., 2009). Expatriate managers also hold positions with extensive control and coordination responsibilities (Du et al., 2015; Hoque & Chia, 2012). This indicates that the headquarters exercises tight control over the subsidiaries (Neves & Bugalho, 2008). Similar to expatriates, subsidiary board members also play a coordinating role by transferring information between the head office and subsidiaries. In addition, they also participate in strategy formulation, monitoring, and performance evaluation (Du et al., 2015).

Training activities can help managers build networks and disseminate corporate values and strategies throughout the MNC (Brenner & Ambos, 2013). Training is conducted to transfer skills and knowledge and to ensure that control mechanisms are properly implemented in the MNC environment (Hoque & Chia, 2012).

Tight Control in Multinational Companies

The more coercive a control system is, the more managers can be pressured to act inconsistently with the organization's goals. Alignment is needed between the controller and the controlled to create awareness. Enabling control is more appropriate to enable flexibility and increase global transparency by aligning global and local goals of the MNC (Doornich et al., 2019). Tension or misalignment between global and local interests in the development of management control systems can lead to constructive changes in both performance measures and organizational rules. The degree of control affects the ability of MNCs to implement global strategies (Chang et al., 2009).

MNCs integrate multiple mechanisms to control the activities of their units. MNCs complement outcome control and process or action control mechanisms with social control (Brenner & Ambos, 2013). A high emphasis on control mechanisms is generally associated with superior performance (Kihn, 2010), especially when process control and outcome control are combined. Complementing outcome control with process control can help mitigate the effects of geographic or cultural distance (Chang et al., 2009; Moilanen, 2008). The tightness of control depends on the degree of internationalization and the need to adapt to the local environment (Lin, 2014).

V. CONCLUSIONS

Management control systems are needed to control subsidiaries in other countries to align with the main objectives of multinational companies. This study contributes to the overview of MCS research in multinational companies in at least the last 20 years. In addition, this study has explored various control mechanisms applied in multinational companies and the factors that influence them.

There is a consensus that result control is typically measured by a performance measurement system that measures financial indicators because they are easier to compare globally. Non-financial measures can complement performance measurement, which is affected by cultural differences, regulations in subsidiaries' countries, and uncertainty in the business environment. In addition, incentives are needed to motivate the alignment of long-term goals of multinational companies.

Action control or process control is needed because of information asymmetry coupled with geographic and cultural distance issues. Centralized action control can monitor the actions of subsidiaries well, but it will further limit the flexibility space. Therefore, action control needs to be adapted to the subsidiary's environment, in particular to market competition factors, culture, regulations and language of the country of domicile. Otherwise, there is a risk of ineffective control mechanisms or even additional costs.

MNCs consider their international control activities through bureaucratic systems, but they realize that they need more cultural or social control (Neves & Bugalho, 2008). This can facilitate the control of results and the control of actions. Forms of social control that can be considered are the use of foreign managers who understand the local culture to transfer knowledge and ensure performance accountability, as well as compliance with company procedures and rules. In addition, training activities can help managers disseminate corporate values and strategies throughout the MNC. It can also ensure that control mechanisms are properly implemented in a multinational environment (Hoque & Chia, 2012). Culture is an important factor for effective control of subsidiaries.

Using tight or coercive controls will limit flexibility and the process of adapting to local needs. Complementing output controls with process controls can help reduce the impact of geographic or cultural distance. The tightness of controls depends on the degree of internationalization and the need to adapt to the local environment. Headquarters managers must be aware that the control mechanisms they implement may not be fully understood or accepted in other countries because of their cultural backgrounds and business traditions.

This study has attempted to review the literature using credible scientific journal sources. However, as with any literature review, this study has limitations. The articles obtained are from only two scholarly databases, so it is possible that not all articles discussing this literature topic have been captured. In addition, the author limits the discussion of research objects in the form of joint ventures. Articles in languages other than English were also excluded from this literature.

Articles were analyzed based on criteria and interpretations that depend on the author's point of view. Given these limitations, other researchers may group factors and discussion topics differently.

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