



## Institutional drivers of conformity – Evidence for management accounting from Brazil and Germany

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### ABSTRACT

This paper contributes to the discussion of international convergence in management accounting, which has included only limited empirical data. Building on institutional theory, we have analysed cross-sectional field study data from a unique set of manufacturing companies in Brazil and Germany. Our data suggest that management accounting structures and practices in both countries are converging towards international standards under the pressure of coercive, mimetic and normative isomorphism. Although firms generally tend to adopt Anglo-American practices, we also find that German management accounting concepts have a strong influence in Brazil. In addition to elaborating on the imitation of international best practices and standardised information systems, we show the pressures created by the adoption of the International Financial Reporting Standards and the pursuit of legitimacy via adherence to social expectations.

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## 1. Introduction

The international convergence of structures, processes and practices has been suggested by a small but increasing stream of literature in the field of comparative management accounting (CMA) (Granlund & Lukka, 1998; Shields, 1998; Van der Stede, 2003). In this context, the literature indicates the dominance of pressures that lead to convergence (including the pressures of globalisation, information technologies and transnational trade agreements) over drivers that encourage divergence (such as national and corporate culture, national legislation and institutions). Still, the convergence of management accounting (MA) practices in international business builds on few sound, theory-based explanations and is only supported by scarce empirical evidence.

In contrast, most CMA studies are based on contingency theory (e.g., Jones, Currie, & Dugdale, 1993; Joshi, 2001; Luther & Longden, 2001). However, this approach mainly highlights the *differences* between structures and processes that emerge as a consequence of adaptation to specific contexts (Otley, 1980). Therefore, we combine institutional theory with theoretical and empirical insights from accounting research to analyse the adaptive pressure that is placed on MA by institutional norms and standards. In particular, we rely on institutional isomorphism in exploring the convergence processes revealed by our qualitative empirical data from Brazil and Germany. The concept of institutional isomorphism explains the harmonisation of

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organisational structures through coercive, mimetic and normative processes (DiMaggio & Powell, 1983; Galaskiewicz & Wasserman, 1989; Zucker, 1987) and has been widely used in management studies (e.g., Deephouse, 1996; Guler, Guillén, & Macpherson, 2002; Kostova & Roth, 2002; Mizruchi & Fein, 1999).

In the field of MA, empirical data on international convergence exist only for particular European countries, the U.S. and Japan (Carr, 2005; Granlund & Lukka, 1998). In this context, we contribute to the existing literature in two ways. First, we explore institutional isomorphism in MA. Constituting a long-standing tradition in organisational research, institutional theory has been proven to generate promising insights (Heugens & Lander, 2009; Kostova, Roth, & Dacin, 2008). Second, we consider the need to include emerging economies in studies of international business and CMA. In this way, we respond to the recent call by Endenich, Brandau, and Hoffjan (2011) to diversify both the theoretical approaches and research designs used in this area while particularly addressing emerging economies.

Our focus on Brazil and Germany allows us to directly compare the impact of international convergence pressures on industrialised and emerging economies and also takes into account the historically strong business relationships between the two countries. In Brazil, for example, there are more than 1200 German subsidiaries with nearly 250,000 employees, which raises the question of mutual mimetic influence (Kaufmann, Panhans, Hagemann, & Schierenbeck, 2006). Additionally, by including Brazil as an object of analysis, we also recognise the increasing economic importance of the BRIC (Brazil, Russia, India, and China) economies. Whereas MA in transition countries such as India or China has been previously studied (Anderson & Lanen, 1999; Joshi, 2001; Lin & Yu, 2002), empirical evidence on MA in Brazil is scarce.

Building on these considerations, our study addresses two central research themes. We analyse international convergence in MA and explain our findings using an interdisciplinary approach based on insights from comparative accounting studies and institutional theory. Furthermore, we explore which practices and standards serve as international reference models, and we examine how these models are conveyed. Our analysis relies on data from a cross-sectional field study. Our matched-sample approach with regard to size, industry and legal form helps us to control for the influence of those factors on our data.

The remainder of this paper is structured as follows. In the next section, we provide a review of the relevant CMA literature. Section 3 describes our institutional theory approach, whereas Section 4 explains our research methodology. In Section 5, we present the results of our field study, which are discussed in the final section.

## 2. Comparative management accounting research

A review of the CMA literature reveals that only a limited number of studies have focussed on MA in emerging economies (e.g., Joshi, 2001; Luther & Longden, 2001; Sulaiman, Ahmad, & Alwi, 2004) and that no explicitly comparative empirical data from Brazil has yet found its way into international accounting journals (Endenich et al., 2011; Hopper, Tsamenyi, Uddin, & Wickramasinghe, 2009). Still, studies on India, China and South Africa reflect an increasing interest in the MA practices of emerging economies (e.g., Joshi, 2001; Lin & Yu, 2002; Waweru, Hoque, & Uliana, 2004) and underline the growing economic importance of these countries.

Most comparative studies of MA in emerging economies indicate the limited use of modern MA techniques such as activity-based management or target costing in those environments (Joshi, 2001; Sulaiman et al., 2004). This finding reflects the lack of well-trained management accountants, the cultural differences and the lack of support for MA by top management in these countries. However, South Africa, for example, has already begun to develop modern structures and processes (Waweru et al., 2004). Empirical evidence suggests that techniques such as scenario analysis and the constant monitoring of the cost of capital are more commonly used in emerging markets than in industrialised countries as a means to address political and economic uncertainty (Luther & Longden, 2001). Collins, Holzmann, and Mendoza (1997) examine MA practices in Latin America, analysing the impact of societal crisis and corporate strategy on budgeting. They find a positive correlation between innovative market strategies and the increased use of budgets in times of crisis. Other research identifies international corporations, intense competition and market liberalisation as important drivers of modern MA practices in emerging economies (Anderson & Lanen, 1999; Firth, 1996).

German MA has been analysed in both comparative academic and practitioner-oriented studies (e.g., Ahrens, 1997; Ahrens & Chapman, 1999, 2000; Jones & Luther, 2005; Krumwiede, 2005; MacArthur, 2006; Sharman & Vikas, 2004). In particular, the high level of interest of practitioners in German MA reflects Germany's international economic relevance and the sophistication of German MA techniques (Küpper & Mattessich, 2005; Wagenhofer, 2006). A particular focus is placed on German cost accounting approaches (e.g., Kloock & Schiller, 1997; Schildbach, 1997; Weber & Weissenberger, 1997). In this context, the German concept of "Grenzplankostenrechnung" (marginal costing, also known as GPK) has been analysed in several studies (e.g., Krumwiede, 2005; MacArthur, 2006). This approach has even been suggested for use in foreign companies as a way to improve existing cost accounting systems (e.g., Friedl, Küpper, & Pedell, 2005; Sharman & Vikas, 2004). Although their MA practices seem to be highly sophisticated compared to those of other countries, German management accountants are less involved in the overall decision-making processes within their companies than their British counterparts (Ahrens, 1997). Their rather passive role involves demonstrating financial consequences instead of actively influencing business decisions. Likewise, German MA researchers continue to work intensely to establish their field as a distinct discipline within the academic community. Because German MA research traditionally has assumed a

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