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The impact of culture on the relationship between budgetary participation, management accounting systems, and managerial performance: An analysis of Chinese and Western managers

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Abstract

This study tests the hypothesis that the behavior and attitudes of Chinese and Western managers to budgetary participation will be different because of cultural differences. Chinese managers are used to represent managers from a high-collectivist, large-power distance, and long-term orientation culture while Caucasian expatriate managers are used to represent a culture that is low-collectivist, small-power distance, and short-term orientation. Data were collected from 51 Chinese subunit managers in Xian, China and 38 Caucasian expatriate subunit managers in Hong Kong who were requested to respond to questionnaires designed to measure the 'availability' of broad scope and timely management accounting systems (MAS), budgetary participation, and their managerial performance. Multiple regression analysis showed that the three-way interaction term was significant, thus, suggesting that the interaction effects of MAS and budgetary participation on managerial performance were different, depending on the cultural background of the managers. More specifically, the relationship between MAS information and managerial performance of Chinese managers was negative for high levels of participation but positive for Caucasian managers. These results have implications for the design of effective control subsystems and suggest that the management accounting theories developed in the context of Western economies may not be generalizable to the Chinese environment. © 2001 University of Illinois. All rights reserved.

Keywords: Culture; Budgetary participation; Management accounting systems; Managerial performance

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1. Introduction

A significant strand of management accounting research focuses on the notion that national cultural variables could affect the relationship between management control systems and performance (Awasthi, Chow, & Wu, 1998; Birnberg & Snodgrass, 1988; Chow, Shields, & Chan, 1991). It is argued that people from different cultures have different attitudes to similar management control systems and management practices (Chow, Harrison, Lindquist, & Wu, 1997; Harrison, 1992). As a result, management control tools and management practices found to be effective in one environment could be ineffective or even dysfunctional in another environment (Chow, Kato, & Merchant, 1996). Thus, these differences as a result of culture have far reaching implications for the design and implementation of management control systems in different countries.

While there are a number of studies that have examined the relationships between culture and various aspects of marketing and organizational behavior, research on the relationship between culture and management control systems is by comparison still scarce (Harrison & McKinnon, 1999; Kagitcibasi & Berry, 1989). In particular, there have only been a handful of studies that have examined managers' attitudes to management control systems across national boundaries (Awasthi et al., 1998; Birnberg & Snodgrass, 1988; Chow et al., 1996; Chow, Kato, & Shields, 1994; Dunk, 1989; Harrison, 1992; Harrison, McKinnon, Panchapakesan, & Leung, 1994; Merchant, Chow, & Wu, 1995). For example, Birnberg and Snodgrass (1988) conducted a field study in US and Japan and found that culture affects the nature of formal control system. Another study conducted in Australia and Singapore found that culture influenced the relation between reliance on accounting performance measures in the evaluative style of superiors and work-related attitudes of subordinates (Harrison, 1992). Other aspects of management controls such as the link between budgetary participation and management accounting systems (MAS) still remain to be explored. Most studies (Chow et al., 1991, 1996; Daley, Jiambalvo, Sundem, & Kondo, 1985; Harrison, 1992; Harrison et al., 1994) have focused on managers in Japan, US, Singapore, and Australia with little or no evidence on how Chinese managers would behave. The extension of these types of studies to Chinese managers is important given the recent surge of multinational business activities in China and the lack of empirical data on Chinese management accounting practices. Moreover, Chinese culture emphasizes values that are diametrically opposed to Western values (Gul & Tsui, 1993, 1995; Hofstede, 1991). Thus, empirical evidence from China would provide important insights into the role of culture in the application of management accounting across national boundaries.

This study examines how MAS and budgetary participation affect the performance of Chinese subunit managers in the Chinese Mainland and expatriate Caucasian managers in Hong Kong. Both MAS (Chenhall & Morris, 1986) and budgetary participation (Brownell, 1982a; Lau, Low, & Eggleton, 1995; O'Connor, 1995) have been identified as key elements in a firm's management control system that is expected to affect managerial performance. However, according to Hofstede (1980, 1991), Chinese managers are

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