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## Predicting change in management accounting systems: national culture and industry effects

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### Abstract

This study replicates the model developed in Libby and Waterhouse's [Libby, T., & Waterhouse, J. H. (1996). Predicting change in management accounting systems. *Journal of Management Accounting Research*, 8, 137–150] exploratory study of changes in a population of 23 management accounting control systems, and the five components of planning, controlling, costing, directing, and decision making, at the organizational level in Canadian manufacturing firms. The determinants of size, organizational capacity, intensity of competition, and centralization (replacing decentralization) are used to examine a sample of manufacturing firms in Singapore. Regression results from survey data partially support the cross-national transferability of their findings. Additional analyses show consistency between manufacturing and industrial firms but not service-oriented firms, suggesting limited generalizability of the model across different economic sectors. © 2001 Elsevier Science Ltd. All rights reserved.

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Management accounting research has amassed significant evidence in the name of advancing systems design and change. The importance of this effort is exemplified in Brownell and Dunk's (1991) testimonial on the stream of research devoted to resolving the Hopwood (1972) and Otley (1978) conflict. Concomitantly, the literature appeals for continuing research amidst the rampant influx of technological and organizational change from more globalization and increasing competition. Ironically, research has tended to bypass the important phenomenon of management accounting systems change at the organizational level, with the exception of the study by Libby and Waterhouse (1996, hereafter L&W) who lamented that our collective knowledge on this issue is trivial.

In an exploratory study involving 24 Canadian manufacturing firms, L&W presented evidence indicating that management accounting and control systems (MACS) have a fluid propensity to change, component parts do not change uniformly, and organizational capacity is a strong correlate of MACS change — findings that are contrary to the view that MACS are resistant to change. However, the transferability of this model, unabridged, to other country settings may be constrained by the influence of national cultures. For example, arguments and evidence from a growing cross-cultural literature reveal that nations differ on important cultural dimensions relating to the work activity of people (Alder, Doktor & Redding, 1986; Chow, Kato & Merchant, 1996; Harrison, Chow, Wu & Harrell, 1999; Hofstede, 1980, 1991; O'Connor, 1995; Schein, 1985). These cultural differences tend to confound the absorption

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and reaction responses to various types of control systems (Harrison, 1992, 1993; Merchant, Chow & Wu, 1995; Pratt, Mohrweis & Beaulieu, 1993; Soeters & Schreuder, 1988). Collectively, the rate of MACS changes across organizations within different countries may be retarded or inhibited completely but there is no existing literature on this issue.

The purpose of this study is to shed further light on the generalizability issue by replicating and extending the study by L&W using a Singaporean sample and Hofstede's (1980, 1982, 1991) cultural framework. We provide evidence to support L&W's macro and component findings of accounting control system changes in manufacturing firms for a growth rather than a recessionary economy. However, the determinants of these changes are affected by cross-cultural considerations and the predictive model is not generalizable to all economic sectors. Our results thus provide an important extension of MACS change across different national cultures and multiple economic sectors.

Singapore was chosen as the replication site because it reflects a predominant ethnic Chinese culture, contrasting sharply with Western cultures (Chinese Cultural Connection, 1987; Hofstede, 1980, 1991) such as Canada. Although it features a strong, but relatively small, internal economy, Singapore's national strategy and industrial policy have attracted worldwide praise and emulation. The use of English (one of four national languages) underpins international business dealings, delivery of the education system, and exposure to state-of-the-art Anglo-American management and accounting textbooks, and extant business practice. Also, other cross-national studies have successfully incorporated dimensions of Hofstede's (1980, 1982) cultural framework utilizing samples of Singaporean firms (e.g. Chow, Shields & Chan, 1991; Harrison, 1992, 1993; Hwang, 1989; Lau, Liang & Eggleton, 1995; O'Connor, 1995).

The merits of replicating accounting research have been succinctly conveyed by Otley, Hannakis and Lindsay (1994), and others, while the benefits of the cross-national generalizability of research results have been endorsed by Birnberg and Snodgrass (1988), Chow, Shields and Chan (1989) and Harrison (1993), among others. Harrison et al.

(1999, p. 144) commented that as more firms locate in multiple countries they will require knowledge on "whether the nature and mix of management issues ... may vary across national settings". In the same spirit, Lau et al. (1995, p. 360) surmised that in the fast growing Asian economies "... the adoption of more sophisticated management accounting systems and practices on a wider basis is likely ... results that could be generalized across cultures would facilitate the rapid adoption of improved management accounting systems...".

The paper is organized in the following manner. The next section presents a review of the literature pertaining to the attributes of national culture referred to in this study along with an overview of the L&W model and hypotheses. A section that details the sample, measurement of variables, and method follows this. Next, the results are presented followed by a discussion section. Limitations and suggestions for further research close out the paper.

## 1. Literature review

The following two subsections provide reviews of, first, the literature supporting the determinants of change in L&W's macro model; and, secondly, the literature pertaining to Hofstede's (1980, 1982, 1991) national culture framework and its applicability to Singapore, and development of the modified hypotheses used in this study.

### 1.1. Determinants of MACS changes

L&W considered the issue of change in managerial accounting systems at the organizational level, thus bypassing the complex problem of effective systems design and the management of change within organizations. Their study was essentially anchored in structural contingency theory, which posits that organizational context and structure condition the nature and types of the most appropriate accounting control systems. Specifically, they focussed on the magnitude of absolute changes from a defined population of 23 managerial accounting systems that were experienced within an organization over the period 1991–1993.

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