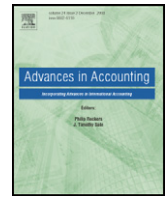




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## Culture, management accounting and managerial performance: Focus Iran

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### ARTICLE INFO

### ABSTRACT

Modern management and control systems may not be equally effective in every country. Budget participation is one of the effective tools in western nations. However, management control tools, in general, and budget participation, in particular, could be ineffective or even dysfunctional in other environments. Hofstede (1980) had suggested that cultural differences among countries are influencing factors. In this study, we investigate the impact of culture, budgetary participation, and management accounting systems on managerial performance in Iran. Three-way analyses of variance are used separately for each of the four cultural Hofstede dimensions. We find convincing evidence that the application of management tools and techniques developed in western countries for effective management performance is not as useful in the Iranian context.

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### 1. Introduction

Importing modern management planning, control systems as is, and using them in a developing country may not be as valuable as in developed countries. Consultants and even educational institutions exhort progressive firms in developing nations to apply various management accounting techniques developed in the industrialized world. This prescription may not always be as effective as suggested for the following reasons: (1) both national and organizational cultural differences may have a significant impact on the outcomes from the implementation of the imported managerial techniques; (2) the diverse cultural backgrounds and the nature of management education may translate into a lack of cognitive similarities which can significantly slowdown communication. Adler, Doktor and Redding (1986) state that culture influences organizations through societal structures such as laws and political systems; and also through the values, attitudes, behavior, goals, and performances of participants. Therefore, to assume that a management technique such as a participative budget-process will have equal effects in different cultures may be highly unrealistic.

Connor and Becker (1994) and Dose (1997) argue that a manager's perceptions of the organizational culture existing in their work place are key determinants of their work attitudes, and thus provide an important framework for understanding the manager's decisions and behavior at work. In particular, the study of the relationship between management accounting systems and a manager's perceptions of organizational culture has attracted continuing research interest (Goddard 1997;

O'Connor 1995; Dent 1991; Bourn & Ezzamel, 1986; Flamholtz, 1983). For example, Goddard (1997) and O'Connor (1995) have shown the link between budgetary participation and managerial job-related outcomes. In this paper, we aim to extend the literature on the relationship between culture, budgetary participation, management accounting systems, and managerial performance in Iran. We use analysis of variance with the results of our survey confirming the interaction effects of cultural values with management accounting systems, and budget participation on management performance. This study contributes to the accounting literature by improving our understanding of the dual role of culture and budgetary participation on managerial performance. The findings of this study will facilitate the cross-national transfer of management control systems by multinational corporations.

The paper is organized as follows: the next section reviews relevant literature associated with cultural values and management planning and control systems. The third section outlines research motivation and formulation of research hypotheses. Research methodology is presented in section four. Section five presents general model of variance analysis. Discussion of results appears in section six. The final section presents conclusion of the paper.

### 2. Literature review

The findings from prior behavioral accounting research are mixed when determining the relation between budgetary participation and improving manager performance in industrialized countries (Coch & French, 1948; Hofstede, 1967; Milani, 1975; Merchant, 1981; Brownell, 1982; Chenhall & Morris, 1986). Coch and French (1948), and Merchant (1981), for example, through field investigations in U.S. firms, found strong evidence supporting a direct link between budgetary participation and improved performance. Other

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researchers, such as French (1960), Milani (1975), and Brownell and McInnes (1986) found a weak or negative relationship. French (1960), for example, in an attempt to replicate previous results conducted a field study in a Norwegian firm and found no significant relationship between budgetary participation and performance. One important explanation offered by Hofstede (1967) for these conflicting results is the existence of different “cultural settings” in different societies. Hofstede concluded his extensive field study of budget participation in Dutch companies with the warning that the “game of budget control is a western game” [p. 28].

Subsequently, a large number of researchers investigated the role of culture on various management systems, especially managerial accounting. The findings of these studies confirmed the effect of culture on the relationship between motivation control systems and management performance (Birnberg & Snodgrass, 1988; Chow, Shields, & Chan, 1991; Awasthi, Chow, & Wu, 1998; Van der Stede, 2003; Ekanayake, 2004; MacArthur, 2006). On the other hand, it was argued that people from different cultures have different responses to similar management control systems and management practices. Tsui (2001) tested the impact of managers’ budget participation on managerial performance among Chinese and western managers. She concluded, “Chinese managers would not react positively to budgetary participation because of their cultural background.” On the other hand, she suggested that Western managers show positive (negative) performance to high (low) levels of budgetary participation. Frucot and Shearon (1991) found similar results with Mexican managers. Their study indicated that performance for Mexican managers employed by firms owned or controlled by Mexican interests was increased by participation in the budgeting process.

As a result, management accounting systems and management practices proven effective in one environment might be ineffective or even dysfunctional in other environments (Tsui, 2001; Chow, Harrison, Lindquist, & Wu, 1997; Harrison, 1992). Therefore, cultural differences in different countries or even organizations have far reaching implications for the design and implication of management control systems. O’Connor (1995) believes that little guidance is available for multinational corporations (MNC) in adopting a particular control system. This need is more acutely felt when an MNC acquires a new business with a different cultural background.

In this study, we examine the effect of culture, budgetary participation, and management accounting systems on managerial performance in Iranian manufacturing firms. Iranian managers are selected because Iran provides an interesting cultural contrast to western countries on the four dimensions (individualism, masculinity, power distance, and uncertainty avoidance) identified by Hofstede (1980). This cultural contrast multiplied after its revolution (1979) due to emphasizing on Islamic laws and values and distancing itself from western values. Another reason for selecting Iranian firms is because, since the revolution, many multinational firms have increasingly invested in different Iranian industries, especially those associated with oil and gas products. For example, just during January of 2007, Iran has signed more than 35 billion dollar contracts for foreign investments (<http://www.irma.ir>, January 29, 2007).

### 3. Research motivation and hypotheses

Budgetary participation and management accounting systems are control tools that are considered interdependent (Emmanuel, Otley, & Merchant, 1990). For example, participation may be more meaningful in organizations that have sophisticated management accounting systems so that managers can use that information for participative decisions on resource allocation among operating units (Chow et al., 1988; Waller, 1988).

In this study, we focused on the management accounting systems as broad scope and timely information which theoretically links with budgetary participation and managerial performance. According to Chenhall and Morris (1986), the scope of management accounting

system refers to the focal point, quantification, and time horizon. From the perspective of scope, management accounting systems provide internal (financial and non-financial) information of the past, present, and future of an organization. Management accounting systems also provide external monetary and non-monetary measurement of the environmental of the organization. Timeliness of management accounting system enables managers to respond to events quickly and provide them rapid feedback for effective decision-making. Timeliness is usually specified in terms of frequency of requested information and providing reports systematically. Both these features of the scope and timely information are often expected to facilitate participative budgetary decision-making. Depending upon cultural values, this facilitation will help managers improve their own performance and that of their organization.

The final factor in this study is the cultural factor. Hofstede (1991) and Hofstede and Bond (1988), focused on detecting the structural elements of culture, recognized the following five dimensions: power distance, individualism, masculinity, uncertainty avoidance, and short-term versus long-term orientation.

#### 3.1. Power distance

According to Hofstede (1984, p. 83), in large-power distance societies, people tend to accept a hierarchical order whereas in small power distance societies, people tend to struggle for power equalization and demand justification for those power inequalities that do exist. This has obvious consequences for the way people build their institutions and organizations. Power distance, therefore, denotes the extent to which members of a society accept that power in institutions and organizations is distributed unequally. The level of power distance is related to the degree of centralization of authority and the degree of autocratic leadership. Hofstede (1984, p. 394) points out that subordinates in large-power distance countries have “strong dependence needs . . . and . . . expect superiors to behave autocratically and not to consult them”. Therefore, allowing subordinates to participate in budgetary matters would be counter to such expectations of authoritative leadership styles. In contrast, subordinates in small power distance countries would prefer to participate in budgetary decisions (O’Connor, 1995). Thus, on the basis of these cultural dimensions, it is unlikely that participation in the budgetary process would be successful in high power distance organizations.

#### 3.2. Individualism

Individualism is defined as the degree of integration a society maintains among its members or the relationship between an individual and his or her fellow individuals. In individualistic societies, everyone is expected to look after himself or herself and his or her immediate family. On the other hand, in collectivist societies, there is a preference for a tightly knit social framework with strong cohesion among groups, where unflinching loyalty is expected in return for security. The fundamental theme in the dichotomy between individualism and collectivism is the degree of interdependence a society maintains among individuals. Chow, Kato, and Merchant (1996) argue that participation in decision-making is more effective in a low-power distance and individualistic society. In contrast, in a high power distance and collectivist organization, people may not feel participation to be important.

#### 3.3. Long-term orientation

Radebaugh, Gray and Black (2006)) paraphrase long-term orientation as representing the teachings of Confucius which emphasize the adaptation of traditions to meet modern needs; a respect for social and status obligations within limits; having large savings and cash available for investment; a willingness to subordinate personal interests to

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