



Contents lists available at ScienceDirect

Accounting, Organizations and Society

journal homepage: www.elsevier.com/locate/aos

Competitive forces and the importance of management control systems in emerging-economy firms: The moderating effect of international market orientation

Neale G. O'Connor^{a,*}, Sandra C. Vera-Muñoz^b, Francis Chan^c

^a School of Business, The University of Hong Kong, Hong Kong

^b 248 Mendoza College of Business, University of Notre Dame, Notre Dame, IN 46556-5646, USA

^c Department of Accounting, Hong Kong Shue Yan University, Hong Kong

A B S T R A C T

Using survey and archival data from exchange-listed Chinese firms, we investigate the relationship between competitive forces (i.e., the threat of foreign entrants and buyers' bargaining power) and the importance that the firms place on their management control systems (MCS), and whether the firms' international market orientation moderates this relationship. We examine five MCS practices—formal procedures, strategic planning, budget targets, approval procedures, and participative budgeting—both as a package and separately. We predict and find a positive association between the threat of foreign entrants and the importance that the firms place on their MCS, but this association is larger for firms competing predominantly in the domestic market than for those competing predominantly in international markets. Further, we predict and find that the association between buyers' bargaining power and the importance that the firms place on their MCS is larger for firms competing predominantly in international markets than for those competing in domestic markets. We probe deeper into our empirical findings using qualitative data collected from *post hoc* interviews with managers of Chinese firms and those of international firms operating in China. We discuss the implications of our findings and provide some directions for future research.

© 2011 Elsevier Ltd. All rights reserved.

Introduction

Accounting scholars have examined how emerging-economy state-owned enterprises have modernized their management control systems (MCS), owing in part to increasing market competition triggered by the opening

of their domestic markets to global players.^{1,2} Despite considerable interest in MCS adoption by emerging-economy firms (Firth, 1996; Lin & Yu, 2002; O'Connor, Chow, & Wu, 2004), the literature has devoted little attention to

¹ An emerging economy is "a country that satisfies two criteria: a rapid pace of economic development, and government policies favoring economic liberalization and the use of a free-market system" (Hoskisson, Eden, Lau, & Wright, 2000, p. 249). Currently, there are approximately twenty-eight emerging economies in the world, and China and India are by far the two largest. Other countries meeting this definition include Brazil, Chile, Colombia, Mexico, Poland, Russia, South Africa, and South Korea, among others.

² For a review in the context of China see Chow, Duh, and Xiao (2007). For studies in other emerging economies, see Anderson and Lanen (1999) for India, Luther and Longden (2001) for South Africa, Szychta (2002) for Poland, and Haldma and Laats (2002) for Estonia.

* Corresponding author. Tel.: +852 93045964.

E-mail addresses: oonnor@business.hku.hk (N.G. O'Connor), sveramun@nd.edu (S.C. Vera-Muñoz), swchan@hksyc.edu (F. Chan).

emerging-economy firm strategy, particularly in relation to how firms configure their MCS in relation to their competitive forces (Porter, 1987, 1991, 1998) and international market orientation (Dawar & Frost, 1999; Luo & Tung, 2007). Thus, with one notable exception (Anderson & Lanen, 1999), extant research does not distinguish between firms that compete predominantly in the domestic market and those that compete in both the domestic and foreign markets. Anderson and Lanen's (1999) small-sample study using 14 Indian firms provides preliminary evidence of an association between firms' initial experience with and exposure to international markets and changes in their management accounting practices following the liberalization of the Indian economy.

This study extends the empirical accounting literature by investigating the relationship between two competitive forces—the threat of foreign entrants and buyers' bargaining power (Porter, 1991)—and the importance that firms place on their MCS, and whether the relationship is moderated by the firms' international market orientation. The focus on MCS in emerging-economy firms is important for several reasons. First, in contrast to developed-nation firms, emerging-economy firms—particularly those from China (Hong & Sun, 2006)—have relied heavily on foreign direct investment (FDI) to accelerate their modernization, which is characterized by the adoption of Western management accounting practices (Firth, 1996; O'Connor et al., 2004). Second, business transactions involving emerging-economy firms are such that social, political, and economic factors are likely to impact the importance placed on MCS (Warner, 2003, p. 4). Third, more emerging-economy firms are seeking global expansion in ways different from the approach taken by their developed-nation counterparts, which can provide new insights into how firms use their MCS to manage such expansion. For example, emerging-economy firms are using international mergers and acquisitions to leapfrog the technology innovation gap between developed-nation and emerging-economy firms (Luo & Tung, 2007).³

As the largest emerging market, China provides an ideal setting for this study for two important reasons. First, China's entry into the World Trade Organization (WTO) in late 2001 opened the country to foreign investors (China Business Review, 2000), and provided impetus towards the global expansion of its firms. Second, the wide ranging and complex institutional changes accompanying China's transition from a centrally planned to a market-driven economy have intensified domestic and foreign competition (e.g., for customers and distribution channels) for Chinese firms (Li, Poppo, & Zhou, 2008).

We collected archival data from the annual reports of a sample of 154 Chinese firms drawn from the population of firms listed in the Shanghai and Shenzhen Stock Exchanges. In this study we assess the importance that firms place on their MCS based on a survey of senior-level managers from our sample firms (i.e., profit- and cost-center

managers in various divisions, branches, and units) (Merchant & Otle, 2006). We examine five MCS practices—formal procedures, strategic planning, budget targets, approval procedures, and participative budgeting—both as a package (Chow, Kato, & Shields, 1994) and separately. To probe deeper into our empirical results, we also consider the results of *ex-post* interviews with the managers of thirteen exchange-listed Chinese manufacturing firms and eight international firms doing business in China.

We predict and find that the importance emerging-economy firms place on their MCS is positively associated with the threat of foreign entrants. This association is larger for firms competing predominantly in the domestic market than for those competing predominantly in international markets. The former firms typically have fewer alternative markets and learning opportunities abroad, which limits their ability to sell products at higher margins. We also predict and find that the association between buyers' bargaining power and the importance that emerging-economy firms place on their MCS is larger for firms competing predominantly in international markets than for those competing in the domestic market. Large international customers (e.g., manufacturers and retailers) are more likely than large domestic customers to impose contracting, monitoring, and cost demands on their emerging-economy suppliers (Kelly & Gosman, 2000; Noll, 2005).

The remainder of the study is organized as follows. The next section develops our hypotheses, after which we describe our data collection methods, the empirical model used to test our hypotheses, and the results. The final section summarizes our findings and their implications, discusses the study's limitations, and provides directions for future research.

Theory and hypotheses

Management control systems

Management theory has maintained that the successful implementation of a firm's strategy requires an appropriately designed MCS (Govindarajan & Gupta, 1985; Simons, 1987). Such an MCS entails formal (written and standardized) information-based procedures, protocols, and routines used by most large firms to align the behaviors and decisions of their employees with the organization's strategic goals (Merchant & Van der Stede, 2007, chap. 1, p. 5). This alignment helps employees make decisions or fulfill their responsibilities, and avoids the loss of control due to a lack of monitoring (Simons, 1987, 1994).

Consistent with the literature on MCS used by emerging-economy firms (e.g., Anderson & Lanen, 1999; Chow et al., 2007; O'Connor et al., 2004), and more recent research (e.g., Abernethy, Bouwens, & van Lent, 2009), we focus on formal planning (formal internal rules, policies, and procedures and strategic planning) and budget controls (budget targets, approval procedures, and participative budgeting) (Merchant & Van der Stede, 2007, chap. 1). Formal policies and procedures and strategic planning help enhance managerial decision making, contribute to reducing decision errors, and help coordinate resources

³ These trends are highlighted by: (1) the recent merger of China's TCL International Holdings (one of the country's leading manufacturers of multimedia consumer electronics) with France's Thomson SA, owner of the RCA brand; and (2) Lenovo's acquisition of IBM's personal computer division.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات