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Study regarding the impact of cultural factors on management accounting systems

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Abstract

The objective of the study to investigate the less clear aspects of the cultural influences on the objectives-setting process and on the procedures for the adoption and implementation of a management accounting system. To achieve this objective, the study uses a research methodology which is mainly qualitative, with insertions of field research findings generated by the author. Cultural factors and the environment in which an entity operates affect the strategic objectives of management accounting systems. The key contribution of the study is that it identifies significant evidence that an entity's the strategic objectives of may vary depending on national and cultural characteristics. It is stated that there are numerous factors that may explain these variations, but all of them are governed by the cultural dimension. Inevitably, Romanian entities are placed in a specific cultural context. The study identifies the specific cultural dimensions and how they influence the process of defining goals within management accounting systems. National management accounting systems currently lie in relatively conflictual area generated by the permanent confrontation of local values and mentality with the effect of international convergence. The reflections presented in the study are a starting point for identifying, analysing and reconciling all the factors that crystallized or erode a modern and efficient system of management accounting.

Keywords: *Managerial accounting, culture, national differences, setting objectives.*

JEL Classification: *M41*

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Introduction

Any managerial accounting system should consider the scale of cultural changes required for its adoption. It is useless to implement the system by imposing a decision hierarchically. A modern system can be viable only through daily inputs from its main users. If they do not adhere to the system, then the system is condemned to extinction. Explanation and training efforts should be oriented towards cultural change, rather than towards the presentation of techniques.

The origin of this challenge may seem, on first examination, quite simple: the study of similarities and differences between the accounting systems should not be limited to financial accounting. It was stated that the accounting systems are influenced and determined by a number of factors such as the economic, financial, political, legal, social and cultural environment. The phenomena of growth and globalization have led to a sharp rise in financial information needs. Under these circumstances, both financial and managerial accounting are different in content and scope from one country to another. Accounting is a social construct and, therefore, it reflects the characteristics of a cultural group, such as the society in which a company operates (Feleagă, 1999).

In general, the organizational culture is defined as an *organizational imaginary* (Larçon and Reitter, cited by Bescos et al., 1997), i.e. a set of images, representations, beliefs regarding the organization, its operations, what is good or bad and the different behaviours and actions. This imaginary is manifested through *symbolic productions* in the form of rites, myths, practices and customs.

Culture is the product of the organization's history. Consequently, it is constituted progressively according to its experiences and the retained solutions, thus creating positive or negative references, but always shared. This forms an entire set of representations that each new member will face, interpret, internalize and circulate, without necessarily being aware of these interpretations and their influence on his behaviour.

By the enhancing mechanisms, more or less powerful intolerance towards those who deviate, the recruitment of persons who have an adapted profile, culture tends to become increasingly more coherent, up to manifesting a *true authority* over the individuals (Pagès et al., 1981). The organization is then marked by a strong culture, which can be a competitive advantage: improved coherence of behaviours from the organization's members, involvement of employees, a high degree of cooperation. But it is also generating inflexibility, limiting the organization's ability to adapt to its environment. Thus, an organization made up of individuals with a common past is marked by a given culture that, powerful or diffuse as it is, will influence the behaviour of its members and, accordingly, will affect to some extent the operation of the management accounting system.

The contributions of this research are focused on studying the implications of cultural factors with regard to defining the objectives and adopting coherent management accounting systems, and the role of national differences in the implementation and functionality of management accounting systems.

The study is important for professional accountants and auditors, especially in terms of understanding the motivations and behaviours underlying the implementation and functionality of management accounting systems. The main conclusion is that any implementation of a management accounting system must be preceded by a comprehensive approach for identifying the mix of cultural footprints and national characteristics of the environment in which that system will operate.

In terms of structure, the next section presents the state of knowledge in the field of cultural impacts on management accounting systems. The third section highlights the research methodology, and it is followed by the analysis of research results in sections four and five. The conclusions are outlined in the last section.

1. Literature review

The international literature includes relevant empirical studies and research in terms of the influence of cultural factors over the implementation, organization, functionality and setting strategic objectives of management accounting systems (Abdalah and Keller, 1985; Hofstede and Bond, 1988; Gray, 1988; Appleyard, Strong and Walton, 1990; Bailes and Assad 1991; Johnson and Byington, 1993; Amat, Carmona and Roberts, 1994; Bescos et al, 1997; Ahrens, 1997; Sharp and Salter, 1997; Nobes and Parker, 1998; Amat, Blake and Wraith, 2000; Gray, Salter and Radebaugh 2001).

All these studies invariably show that the impact of culture on management accounting systems is very strong, and the general conclusion is that the objectives of entities in different countries vary considerably. Asian entities are considered to be less individualistic and more long-term oriented. They focus less on immediate gains and choose targets specific to long-term stability. By contrast, Anglo-American entities generally favour the short-term approach and set more profit-oriented objectives such as, for example, the return on investment (ROI).

Comparative studies of national management accounting practices began to be published only in the second half of the '90s. Relevant in this regard is the synthesis-study by Amat, Blake and Wraith (2000) that identifies several key factors by which it is explained why different countries develop different management accounting practices. In fact, the study of Amat, Blake and Writh (2000) is based on the analyses carried out by Lizcano (1996) in 11 Latin-American countries and also Spain and Portugal and by Bhimani (1996) in 11 European countries, and also Macintosh (1998), Shields (1998) and Birkett (1998).

The national literature can be characterized only in recent years by a production of works that capture the issue of cultural differences in setting objectives and implementation of management accounting systems (Feleagă, 1999; Ionaşcu, 2003; Albu and Albu, 2003; 2004).

2. Research methodology

A mainly qualitative research methodology was used for the purpose of presenting and analysing the impact of cultural factors on management accounting. In this respect, the documentary research, analytical research, opinion and comparative analysis were used as research strategies. Documentation was performed based on various studies and analyses regarding the relationship between the cultural aspects and the managerial accounting systems. Also, in the context of field research conducted on a sample of 20 Romanian companies in the field of civil engineering between 2010 and 2015, some conclusions regarding the impact of cultural factors on national systems of management accounting were considered.

The hypothesis of the study is that in the field of management accounting there can be found a direct association between the strategic objectives, the methods of quantifying these objectives, the entities' managerial analysis tools and the national environment and culture (with all the involved sub-factors) in which the entities operate. The inherent limitations of all related studies are generated by the specificity of the addressed field, the difficult economic modelling of the manifested variations, subjectivism, the increasing trends of economic globalization and international convergence, and the size of the samples that that formed the basis of empirical research.

The comparative analysis of the results regarding the cultural dimension of managerial accounting systems can be a starting point to extend the studies that identify the behavioural aspects of implementing these systems. The successful implementation of managerial accounting tools depends not only on the relevance of the method in itself, but also on how the method is implemented and accepted by the entity's members. The oscillation between a forced or a consensual implementation will always be a problem of culture and mentality (Albu and Albu, 2003). One of the essential characteristics of any management accounting system is its compatibility with the cultural environment.

3. Culture between national characteristics and international convergence

The attempt to understand the different cultural foundations of management accounting can be considered a paradox, given the obvious pressures in favour of international uniformity. Apparently, wherever we are located, there seem to be common interests in increasing the intensity of using similar financial accounting practices. However, on closer analysis, two trends may be revealed: the increased awareness of the cultural specificity and the threat of international harmonization. However, local interests may be favoured, in violation of international trends.

Mixing local and global objectives is more visible in the field of financial accounting. With the development of the European Union single market policies, the awareness of cultural differences has been greatly enhanced. Intensifying the identification of differences itself created a greater awareness of national elements. Harmonization and standardization policies have generated a more in-depth analysis of national practices that can be modified by international rules and directives. Regional and, later, international standardization pressures in the field of financial accounting resulted in the development of national accounting identity (provided that it did not already exist). Therefore, the national and cultural specificity is not necessarily in opposition with the internationalization. The two can generate creative and constructive relationship with one another.

In the field of management accounting, the relationship between national and global cannot be understood immediately, although it seems that non-compliance with international practices favours, to some degree, the reflection on the specificity and prevalence of national practices. In this area, there are also other reasons on trying to understand the differences between the national and global levels, as well as the interaction between them. Being tightly connected to other corporate practices and management issues, the form, function and importance of management accounting systems may vary depending on their position in the complex structures of organizations. Different cultural configurations can involve different explanations of economic factors and can result in different forms of management, and, through it, the different forms of economic calculations.

Another starting point can be renowned study by Hofstede (1991, cited by Feleagă, 1999; Gray, Salter and Radebaugh, 2001; Nobes and Parker, 1998) on cultural values. The concept of culture has been defined almost axiomatically as a collective mental programming which distinguishes the members of a group from the other individuals. To describe national cultures, Hofstede used the following criteria or dimensions that affect every decision made by an individual, a company, with special reference to the economic activity:

- *Individualism opposable to collectivism*. The fundamental issue addressed by this dimension refers to the degree of independence of individuals within an entity.
- *High or low hierarchical distance*. Hierarchical distance is the extent to which an entity's members accepts that power is unevenly distributed within organizations, which affects behaviours.
- *Strong or reduced control of uncertainty*. In this case, it is the degree to which members of an entity do or do not feel threatened by the uncertainties of the future.
- *Masculinity as opposed to femininity*. Masculinity is represented by characteristics such as courage, aggression, domination, decisiveness, determination, ambition, heroism. By contrast, femininity generates propensities towards modesty, respect, human relations and life quality, protective behaviours.

In 1988, Hofstede and Bond identified another cultural dimension called Confucian dynamism or long-term orientation versus short-term orientation. This dimension separates the entities with a long-term strategy (Asian) from those favouring a short-term focus (Anglo-Saxon and European).

An attempt to quantify these cultural variables is reflected in the analysis of the data in **Table 1**:

Table 1. Selection of Hofstede's scores

Countries	Individualism	Long-term focus	Masculinity	Hierarchical distance	Control of uncertainties
USA	91	29	62	40	46
Australia	90	31	61	36	51
United Kingdom	89	25	66	35	35
Canada	80	23	52	39	48
New Zeeland	79	30	58	22	49
Germany	67	31	66	35	65
South Africa	65	-	63	49	49
Japan	46	80	95	54	92
Mexico	30	-	69	81	82
Hong Kong	25	96	57	68	29
Singapore	20	48	48	74	8
Taiwan	17	87	45	58	69
Mean	*38*	*33*	*49*	*60*	*68*
Interval	*6-91*	*0-118*	*5-95*	*11-104*	*8-112*

Source: Hofstede, 1991, cited by Gray, Salter and Radebaugh, 2001; Nobes and Parker, 1998.

At least theoretically, Hofstede (1991, cited by Feleagă, 1999) stated that there is a considerable probability that certain cultural aspects also affect the management accounting systems.

These ideas are reflected in the first papers in the field of financial accounting, which connect the cultural context and the practice of financial reporting (Gray, 1988, the four values of the accounting culture: accounting profession – legal control, uniformity – flexibility, conservatism – optimism, discretion – transparency).

In the case of Romanian entities, the classification based on these cultural dimensions is relatively difficult and it is also characterized by dynamism, or even volatility. Another significant factor influencing this classification is the mix between local and imported cultural values, between national reluctance and the assimilation of new elements. Subject to the author's bias and considering the economic aspects, based on field research conducted in the context of Romanian entities, the cultural dimensions specific to the Romanian environment, relevant for management accounting are:

- A long transition from a forced collectivism to above average individualism;
- Exaggerated orientation towards relevant targets on a very short term;
- Masculinity, including the less positive aspects specific to this dimension;
- Hierarchical great distance, induced by the strong manifestation of authority;
- Reduced control of the uncertainties generated by the short-term orientation and manifestations of a less stable economy.

These cultural characteristics of Romanian entities become more apparent in the context of budgetary processes. In the national context, the network of budgets invariably creates a correlation between performance and individual rewards. Also as a result of individualism, accountability and sanctioning procedures are ubiquitous at the individual rather than the group level. Big hierarchical distance seems to erode the participatory budgeting process and subsequent adjustment actions are limited. Uncertainty control has a low efficiency, budgeting is carried out on the short term and it is not very detailed, the predominant focus being the short-term objectives.

4. Culture and its influence on management accounting systems

Any managerial accounting system includes a performance measurement system. This is a process that enables the convergence of individual goals with the overall objectives of the organization. This convergence of goals is a prerequisite for the development of a management accounting process. The mechanism requires a continuous involvement of stakeholders. Convergence will be strengthened or undermined by the nature of the selected performance measurement system.

The involvement of those accountable is essential at every level, the main features being (Bescos et al., 1997) that they:

- Must participate in setting objectives and ensure that, besides being ambitious, yet realistic, they are correlated with the overall objectives of the organization;
- Play an important role in estimating what means should be employed to achieve the objectives. Sometimes, very specific skills are needed, held only by a limited number of persons. It is of paramount importance that those persons get involved in the process of selecting the economic means to be used and establishing how those means are used;
- Any results measurement system, which is essential for the development of a management accounting process is based on the production of reliable information on a regular basis. Also, in this regard, the action of various operational responsible is fundamental, as they contribute to the quality and speed with which information is produced;
- A management accounting system has no importance unless the differences between the objectives and results give rise to corrective actions. The results highlighted, no matter how accurate, will be of no use if the responsible persons involved will not take them into account, in

order to adopt the corresponding corrective actions.

Am management accounting system does not function automatically. The quality of its deployment depends largely on the willingness to engage of those responsible at different hierarchical levels. This can be implemented through a performance measurement system, most often associated with a performance rewarding system.

Gray, Salter and Radebaugh (2001) identified the main premises around which any managerial accounting system is developed:

- Organization's strategic objectives;
- Resources to achieve the strategic objectives and the means of providing them;
- Existence of functional systems for warning, adopting corrective measures and analysis of achieving the strategic objectives;
- Ways for assessing and rewarding the managers' performance;
- The impact of the organization's internal and external environment on the analysis and information needs;
- The impact of national characteristics on the previous items.

Various empirical studies carried out in the international literature show that the influence of each cultural dimension on the previous premises is not always very clear and there are many situations where they need to be addressed in conjunction. The main findings showed that the cultural dimensions that have the strongest impact are the degree of individualism, hierarchical distance and long-term orientation. At the same time, the criteria for uncertainties control and masculinity have a reduced influence. In our opinion, all five dimensions manifest their presence in a correlative and integrative manner within the processes of organization, implementation and operation of management accounting systems.

Culture influences behaviours in a general manner, but it particularly affects the determination and the nature of the objectives (Bescos et al., 1997). The cultural dimensions of an organization are likely to influence the modalities adopted for measuring the results. The relationships between the setting of objectives, achieving of results and the cultural influences generate the measure of performance. By confronting the results with the objectives and interpreting them in terms of culture, a more subjective approach is revealed, as well as the exposure of a value judgment regarding the effectiveness.

Several empirical studies (Abdallah and Keller, 1985; Appleyard, Strong and Walton, 1990; Shields et al., 1991; Bailes and Assada 1991; Ueno and Sekaran, 1992; Harrell and Harrison, 1994; Harrison et al., 1994; Gray, Salter and Radebaugh, 2001) illustrate that an entity's main objectives vary considerably depending on nationality, economic and social development and cultural aspects. Among the most frequent objectives of management accounting systems, measured by financial indicators, we can include profit, turnover, gross margin, commercial profitability, residual profit, economic value added, return on investment, reducing production costs, comparison of budgets and achievements, market share. Each of those objectives has advantages and disadvantages, always being connected with the specific features of the business entity and analysed in a specific cultural context.

The findings of these empirical studies have shown that cultural divergence divides entities from different countries into two main categories, each category being represented by the United States of America or Japan; all other countries can be "assigned" similar cultural characteristics as one of these two representatives. The groups of Anglo-American companies show a significant preference for objectives measured by the return on investment (ROI), budget analysis, profits, turnover. Japanese groups entail a completely different approach, as they favour the objectives characterized by turnover, production costs, profits, gross margin, and market share, while the presence of ROI is almost insignificant. We believe that the most relevant studies in this regard are represented by Shields et al. (1991) and Bailes and Assada (1991), whose conclusions are summarized in **Tables 2** and **3**.

Objective	Japan (%)	United States of America (%)
Turnover	69	19
Increased turnover	28	28
Market share	12	19
Assets' rotation speed	7	13
Commercial return	30	26
Return on investment (ROI)	7	75
Controllable profit	28	49
Residual profit	20	13
Operating result	44	38
Production costs	28	13
Others	8	17

Table 2. Correlation between setting goals and the managers' assessment

Source: Shields et al., 1991.

Table 3. Setting the budgetary targets

Objective	Japan (%)	United States of America (%)
Sales	86,30	27,90
Operating result	44,70	35,00
Controllable profit	28,20	51,80
Gross margin on sales	30,70	30,50
Increased turnover	19,40	22,40
Return on investment (ROI)	3,10	68,40
Production costs	40,70	12,40

Source: Bailes and Assada, 1991.

In the context of the sample of Romanian entities that were subject to field research there has been revealed that the setting of goals is closely correlated with cultural dimensions mentioned above: The rapid and more or less forced transition to individualism, large hierarchical distances, short-term orientation, poor control of uncertainties have generated the excessive focus on quantifiable short-term targets such as profits and turnover. It was also found that among other items favoured by Romanian entities as performance measurement and objective-setting tools there are included the gross margin, operating result, EBITDA (increasingly common), rates of return, costs of production, turnover growth rates, ROI (rarely). Also, there is still no attention granted to analysing budgets, deviations, and therefore many issues remain uncorrected and are propagating. An increasingly frequent is the influence of some management accounting instruments imported from the Anglo-Saxon cultures on the objective-setting process. The implementation methods and assimilation processes erode much of these instruments' effectiveness. The aspects related to the implications of the human factor in implementation processes are ignored, and an intense endeavour of becoming familiar with the behavioural manifestations is quite absent.

Conclusions

It is continuously demonstrated that the impact of culture on managerial accounting systems can be very strong, and the general conclusion is that the objectives of entities in different countries vary considerably. A management accounting system is inevitably placed in a specific cultural context. Some instruments are considered so harmless that their implementation does not seem to require a specific cultural environment. Others seem to produce effects only if a certain mentality is in place. In the context of our research it was stated that different countries or areas focus on different accounting tools. Before deploying an instrument in a foreign environment, it is necessary to perceive and assimilate the cultural characteristics and the organizational mind-sets of that environment. The transplantation of any instrument must consider a variety of factors that may not be present in all contexts, organizational characteristics and, not in the least, relevant social issues. In each new environment, the anticipated benefits of implementing a particular instrument should be reviewed continuously.

Awasthi, Chow and Wu (1998) revealed that the differences in national culture may not represent insurmountable obstacles to the import and export of management accounting tools. Rather, the individuals have self-understanding and resourcefulness and can take steps to become flexible and adapt to the requirements of the new management practices and professional environment. Harrison and McKinnon (1998) requested that, in the context of intercultural research, the cultural "drugging" of the relationships between culture and behaviour be denied. Fundamentally, the consciousness of actions and human behaviour must be emphasized, as well as the ability of individuals to reason on multicultural, personal and contextual factors and to act deliberately in the complex interaction of these factors.

Any process of implementation should consider the magnitude of the changes in mentality and culture required from the persons involved. Implementation should not be done by hierarchically imposing the adopted decisions, with an emphasis on the daily input of each individual. A new system that is not accepted and assimilated properly is sentenced to extinction. The training effort must be oriented towards the change in mentality, rather than to the presentation of techniques.

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