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**The Influences of Budgetary System in a  
Selection of Large Chinese companies in the  
Industry of Electronic Household Appliances**

**Xiao Fu**

**PhD Study in Durham Business School  
Submission in 2012**

**Supervisors: Professor Rob Dixon  
Ms Anne Woodhead**

## **Declaration and Statement of Copyright**

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The copyright of this thesis rests with the author. No quotation from it should be published without their prior consent and information derived from it should be acknowledged.

## Acknowledgement

I appreciate my family's selfless emotional and financial support for my PhD study.

I thank Professor Rob Dixon for knowledge about management accounting and doctoral level research, especially his patience in training me from a blank canvas at the beginning of my PhD study. I appreciate that Ms Anne Woodhead joined the supervising team. I acknowledge my examiners Mr Alan Coad and Ms Riham Rizk, for their intellectual input in reading my thesis and their suggestions, although it is natural that academic opinions may differ. Based on their major advice, I focused this stage of research of this project on an in-depth qualitative case study. This produced a constructive outcome. Two main streams of data findings have been well received during the correction period of time. A paper (cooperated with Rob and Anne) based on this project's findings about Institutional Theory Approach in management accounting (chapter 6) has been accepted by BAA's (now BAFA's) annual conference 2010, after which I was invited to present at the 8th International Management Control Conference 2010, and I was honoured to be the only participant from mainland China at this conference which academies from 26 countries or regions attended. My paper based on this project's findings about Contingency Theory Approach in management accounting (chapter 4) was presented at the highest meeting of AAA's annual conference Denver 2011. At the final stage of examination on corrections, Professor Mike Humphreys became my new internal examiner when the original internal examiner was absent. I appreciate his careful examination and efficient response.

Professor Robert Scapens had generously spent half an hour for me, during BAA's annual conference 2005. I appreciate his friendliness as well as Professor Scapens and Doc. Burns'

recommendation of references. These gave me encouragement especially because the interpretive ontology leads this thesis to its important findings. Doc. Lydia from Durham University has taught me expertise about NVivo. I thank her for her cross disciplinary help to this research project. Professor Liza Jack, Professor Mike Tayles, Professor John Collen, and Dr. Martin Quinn gave advices on this thesis' findings about Institutional Theory Approach at BAA 2010 and MCA 2010. Professor D. T. Otley (MCA 2010), Professor Edward Walker, and Professor Chris Chapman (AAA 2011) gave advices on this thesis' findings about Contingency Theory Approach. Professor Olive Emmanuel gave advices on this thesis' use of Nvivo to analyse qualitative data at MCA's Doctoral Colloquium 2010. As learning is an endless process, I wish to still keep learning from all of these scholars after this stage of study, and I am looking forward to possible future cooperation. Without permission and strong support by Mr H from Company A and Mr Ch. from Company B, this research project can never come into being. I would like to thank them for always being so willing to help. Mr H especially was like a mentor by allowing me to follow him for months for participant observation and teaching me his experiences. For confidentiality reasons, I cannot acknowledge Mr H, Mr Ch., and their colleagues who have helped me for data collection by their full names, yet the appreciation remains the same.

It is literally impossible to accomplish this project without the genuine supports from certain supportive staff from other administrative units of Durham University, including Ms Elizabeth Amies at the Academic Support Office of Durham University, Mr Tim Broadwell at the Immigration Unit of Durham University, and Ms Brenda Ryder at Ustinov College of Durham University. Durham Business School has been a supportive community in its own way. I would like to thank Doc. Peter Hamilton for his conversation about 'rhetoric', Professor Timothy Clark for providing me opportunity of presenting at Northeast students'

workshop, the Dean's office (especially Ms Emily Aitken and Ms Asheigh), Doctoral office (especially Ms Anne Bailey, Ms Trisha Taylor, and Ms Frances Paylor), IT office (for rescuing me so many times), and DBS library (many thanks for Collin and Debbie for professional advices in academic research and resources searching, and Ercument Aksak for his help and kindness to me) for their constant support. I appreciate old Frank's help and kindness when I was doing evening shift part-time job in DBS library. I am also thankful to many fellow PhD students, Terak for bringing me articles concerning China back from conferences, Mohamed and Juliana (especially thanks Juliana for NVivo since we share similar methodology and software, Mohamed for Institutional Theory and NVivo) for teaching me presentation skills, Sinan for good advices in my final stage of writing up, and Diana for sharing last stage PhD experiences before she left.

Wu Liang and Li Ji have provided I.T. help. I thank Dr. Philip Nathan providing English consultation at Durham University, Dr. Clare Wright in linguistic study, Dr. Yoonjoung Choi in English literature study, and Andrew Wright in business, Christian Errikson, and Ashley Ogdon for proof reading. I thank other friends especially France, the Nortons, the Davies, the Collens, Jacki Thompson-Calvert and Dr. Linda Thompson to have faith in me, during ups and downs, and whose wisdom supports me during uninvited life dramas of all kinds.

Last but not least, I would like to thank Professor C. W. Nobes, whose knowledgeable and interesting lectures I attended in Reading University during an MSc program, aroused my interests in accounting for the first time, and introduced me to this area. He as a role model of a dedicated academy and an upright gentleman, has always been, and will always be, a guiding light for me to find the right path in research and have faith in doing the right things, even in total darkness, loneliness, and pain.

## **Abstract**

Budgetary control has been used and researched for years by both Western academics and practitioners. In China, it is re-emerging as a tool to implement management control, but might be used in different ways both in terms of understanding and operation. The research objective of this thesis is to examine the applicability of Western theories of change in management accounting in the context of budgeting in Chinese corporations.

Challenges can exist because of the differences between Western assumptions and Chinese reality. The current thesis focuses on difficulties Chinese companies encounter in practical and deeper ideological ways: firstly, Western market-based ideology conflicts with an ideology which has been shaped by central-planning for decades; secondly, difficulties stem from the different cultural context of China which emphasizes hierarchical politeness, kinship ties, trust based on personal relationships, collectivism and social harmony, diligence and individual modesty, and less developed modern legal regulatory systems – these all contribute to China's own way of doing things. This thesis also focuses on the transition process in China. Based on the assumption that budgetary changes do not happen in isolation from other management accounting changes, this thesis discusses these changes which synchronically took place while the case-study companies were implementing budgetary systems. This thesis adopts a longitudinal and in-depth qualitative case study research design, after adjustments made during the learning experience of the pilot study. It takes an interpretive and constructive philosophical underpinning, which allows the researcher to observe and understand the process of change, as well as the differences between Chinese practices and Western theories.



Findings show that certain Western management accounting theories of change and Western theories of budgeting work in the case study Chinese corporations. Management accounting theories using an interpretive approach (for example, Berry et al., 1985; Scapens and Roberts, 1993; Ahrens and Chapman, 2002) lead the researcher to interpret management accounting practices from the practitioner's points of view, and they have provided a range of terms to explain success or failure of management accounting changes. This approach together with Scapens et al.'s Institutional theory approach in management accounting have been found especially useful, in explaining the differences between Chinese vs. Western context. Furthermore, the contingency theory approach in management accounting gives a 'platform' which allows the researcher to assess a wide range of possible factors and their relationships with budgetary systems in studied companies. This approach is found useful in this thesis to present changes in other management accounting perspectives. Last but not least, this thesis finds existing Western literature in technical perspective of budgetary objectives, budgetary evaluation and participation, and budgetary effectiveness useful in a different context of China. By describing the change management process, an aspect which is not addressed frequently in the research literature, this thesis argues that to sufficiently understand Chinese companies' budgetary changes, one also needs to understand unique cultural, social-economical and religious circumstances, and to adjust literature and methodology to adapt to these circumstances. This thesis provides an empirical experience concerning these issues. This thesis contributes to the understanding of management accounting change in China, and the tension which exists when Chinese companies are moving into Western management accounting practices.

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# Chapter 1 Introduction

If the games of budgetary control in the West are to find an optimum balance between control and autonomy, through ‘the creation of a game spirit or an atmosphere of sportsmanship around attainment of budgetary goals’ (Hofstede, 1968), then how does the game of budgetary control play in a different context such as China?

## ***1.1 The Research Context***

While management accounting has existed as an independent domain, both in theory and in practice in the West, it is still recently new to China. However this situation is changing rapidly. Globalization brings competition, together with better chances of mutual learning. Some large Chinese corporations, which trade internationally and have significant opportunities to get in touch with their Western customers or competitors, have adopted Western management accounting techniques or systems. For example, Scapens and Meng (1993) studied state-owned Chinese companies’ reform of responsibility accounting system, in which the Western approach is adopted; and China’s Jiang Su Province Electricity Company installed new Western financial management information systems (Yang, 2002). The interesting thing is that these management accounting techniques or systems are not only technically new to Chinese companies, but also challenge the existing ‘ways of thinking’ at a deeper level.

Challenges can exist because of the differences between Western assumptions and Chinese reality. This thesis focuses on difficulties Chinese companies encounter in practical and deeper ideological ways: firstly, Western market-based ideology’s conflicts with an ideology

which has been shaped by central-planning for decades; secondly, difficulties stem from the different cultural context of China which emphasizes hierarchical politeness (both hierarchy due to position, and hierarchy due to age, experience, and social relationships), kinship ties (kinship due to family bond, or kinship due to similar education background, as well as geographical origin), trust based on personal relationships, collectivism and social harmony, diligence and individual modesty, and less developed modern legal regulating systems – these all contribute to China’s own way of doing things.

It should be clear from the above argument that, incorporating management accounting techniques or systems into Chinese companies is a more difficult task than merely transferring ‘know-how’. A richer picture needs to be developed in order to improve outcomes and understand the motivation for and process of change. These all add difficulties to Chinese practitioners aiming to implement these systems, and seize the interest of academic research. These practices may differ from Western management accounting in terms of definition, theories, and regulations. There is also no professional committee concerning management accounting in China at the moment.

This thesis began under the background of a rising tide of Chinese companies’ reforming management accounting practices towards Western management accounting techniques and systems, challenges of reconciling Western management accounting assumptions and Chinese management accounting practices, and a lack of academic research in Chinese management accounting.

## **1.2 Research Motives**

Although limited research has been conducted towards different issues in different industries concerning China's management accounting practices, taken as a whole, these studies lack sufficient breadth and depth to fully account for China's management accounting practices. As management accounting studies in all countries and regions shall share similarities while differing in their own features, filling the research void would help Chinese practitioners to improve. Also, Western academics who are interested in issues about doing management accounting research in a different social economic context, and Western practitioners whose business operations are related with Chinese companies can benefit from this thesis in understanding China's context in budgeting. Moreover, this thesis would enrich management accounting research in general by enriching the context. From the theoretical perspective, what do we (not) know about management accounting in the different context of China? What difficulties and problems may be encountered for management accounting research in China? How can we solve them? Are Western management accounting theories useful or sufficient while explaining Chinese practices? What are the similarities? What are the differences? What are the outcomes? What do we need to know while studying management accounting in China? What methodologies or methods are useful or suitable? Many of these questions concerning Chinese companies' reform of management accounting techniques and systems remain unanswered.

For a discussion about different approaches to development of business study theories in China, Li and Peng (2008) introduced three alternative approaches which can also be shared by management accounting studies in the Chinese context. According to these researchers, there are 'China-specific theories' which demonstrate insufficient theoretical background and



‘scientific methodology’; studies preferring to ‘investigate the validity of mainstream Western theories in China’ often developed out of incorrect assumptions about China’s realities; and an ‘integrative (hybrid) approach used by researchers who are not only ‘interested in and familiar with mainstream Western theories’, but also are ‘aware of the uniqueness of some Chinese practices’. Suggested by Li and Peng (2008), the motivation behind adopting the third approach is ‘driven by the Chinese context as part of the rapidly evolving global economy’ as well as a unique experience. The methodology chapter of this thesis illustrates in further details about the pros and cons of these three approaches introduced by Li and Peng (2008).

Li and Peng (2008)’s insights are similar to previous findings in management accounting studies focused on China. For example, Scapens and Meng (1993) suggested that Chinese researchers are ‘unlikely to find a suitable theoretical framework in the West’ because of the differences between the two, but ‘agency theory and behavioural science may help to give direction to Chinese management accounting research in the future’. It would seem therefore that the integrative approach of theory development (Li and Peng, 2008), which recommends researchers to ‘act local (focusing on China), but think global’, adopts a sensible cross-boundary attitude towards the connecting between global trends in research and local reality. Bartlett and Ghoshal (1989) explained that ‘cross-vergence’ searches for ‘the elusive but ideal “transnational solution”, and combines both context free and context embedded (China-specific) elements’. The integrative approach can be both ‘challenging’ and ‘rewarding’ and hence is seen as an appropriate path to support the ‘theory development in China research’ (Li and Peng, 2008).

As Western management accounting theories may sometimes reveal issues common with China, and sometimes be insufficient to explain issues due to China's different context, the gap between Western management accounting theories and Chinese companies' practices may lead to misunderstanding on both sides. Better communication and understanding which may reduce or avoid waste or failure, and lead to better cooperation and outcomes need management accounting studies based on an in-depth understanding of Chinese companies' real management accounting practices. This serves as a further factor which motivates the current study.

Previous parts of this section have presented the motivations behind this study of management control / management accounting practices of China's manufacturing companies. What remains to be decided are questions about which industry, which topic in management control/ management accounting, and which companies should this thesis choose to study.

Although different Chinese industries may differ in their features, stage of development, and importance, this study presumes Chinese manufacturing industries in general share the same context, and very similar environment. Hence, the choice of industry does not fundamentally affect the results of this study, although the industry's own specific contingencies and nature need to be considered. The relatively lower importance of the choice of industry increases the possibility of generalization of this study. This thesis looks at China's electronic household appliances industry, as it was one of the earliest Chinese industries which began to participate in the market economy, and it is one of the Chinese industries with the highest levels of marketized trade at the moment (Zhang, 2004). It therefore can provide a broader picture of

the development of Chinese manufacturing industry, and provide insight as to how other industries in China may develop.

I have selected budgeting as an aspect of management accounting change, to look into China-Western contrast findings. Effective budgeting / budgetary control systems lie at the core of Western management accounting theories and practices. These systems are considered to be highly effective at integrating different perspectives of the whole organization. However, Otley and Berry (1979) claimed decades ago that ‘budgeting has always been a problematic process’. Recent debates in research and in practice about the problematic or dysfunctional side of budgetary systems continue (see chapter 2 for more details). Nevertheless, a budgetary system’s effectiveness, its close relationships with achieving organizational goals, its interactions with all levels of the organization, and its potential function of facilitating organizational control, all enable these systems to serve as useful tools in Western business practice. According to a survey by Burns, et al. (2003) of UK companies, ‘planning/ managing budgets’ remains among the top 5 ‘tasks that were vitally important for management accountants in the period 1995-2001’. Notably changes in how to use traditional management accounting tools including budgeting, and the changing role of management accountant were also informed by their survey study (2003). Bonner et al. (2000) reviewed results of 85 laboratory studies of budgetary systems and concluded that ‘budget-based schemes are the most likely to produce positive incentive effects’. Furthermore, according to this researcher’s pilot study exploring the reality of Chinese companies’ management accounting practices especially, Shun De electronic household appliances companies’ practices, showed that budgetary systems are among the earliest and one of the most important management accounting systems or techniques Chinese companies adopt. They are

adopted to help Chinese companies to survive tense market competition by better internal control. All these reasons lead this thesis to choose budgetary system as a representative management accounting/ management control device to study.

Moreover, through examination of Chinese manufacturing companies' budgetary systems in electronic household appliances' industry, this thesis aims to provide a snapshot of reality to help understand Chinese manufacturing industry and its implementation of Western management accounting systems or techniques, and hence to help understand China's economy and its influences and relationships with the world economy. In line with these purposes, and also China's context of budgetary systems which is very different from its Western counterpart, as well as the pioneering stage of research of budgetary systems in Chinese companies, this thesis focuses on analysing a limited number of Chinese companies' budgetary changes to reveal a deep and rich picture, rather than gathering superficial statistics on a large number of Chinese companies' budgetary systems according to Western theoretical presumptions alone. This approach does not imply that questionnaire methods cannot be used in this study, or statistical studies shouldn't be conducted in the future. Instead, it only means that qualitative, in-depth case studies based on a restricted number of Chinese companies suit this project's situation at the moment. Furthermore, since theories of budgetary systems consider large-sized instrumental organizations as the most suitable type of organizations for implementation of budgetary systems (Merchant 1981), this thesis chooses two large Chinese companies in the electronic household appliances industry for data collection. They are both located in Shun De District, Canton Province (southeast China) as Shun De is called the 'kingdom of electronic household appliances'. These two companies differ in size, fame, stages of development, scale, and stages of using management accounting systems (including

budgetary systems). Their similarities will be observed to reveal general tendencies, while their differences may reflect a broader picture of Chinese companies' understanding and use of budgetary systems.

### ***1.3 Research Objectives***

Based in the motivations of this study discussed in 1.2, the current study aims to examine the applicability of Western theories of change in management accounting in the context of budgeting in Chinese corporations.

This thesis seeks to understand the studied companies' practices in budgeting in their own context. Western theories concerning budgetary changes give support for this understanding and explanation. In other words, are relevant Western theories concerning budgeting useful or not in explaining studied companies' budgetary practices? What are the similarities? What are the differences? What are the insufficiencies? What Western theories of budgetary changes don't tell us before this study? What do we need to know? How do we get to know it? What do we learn from this study? What can we suggest for practices or future studies? These all contribute to a constructive perspective of this study's research objectives. That is, to examine the gap between Western management accounting theories concerning budgetary changes and studied Chinese companies' budgetary practices.

Through this examination, a rich picture is revealed which helps in the development of an in-depth understanding of the context of Chinese companies' management accounting practices

as a whole. By doing such an examination, not only the major research objective of explaining budgetary changes in studied Chinese companies satisfied, but also possible generalizations may be made which support an understanding of budgetary changes in other Chinese companies, and potentially changes in other Chinese organizations in general.

### **1.4 Research Questions**

- a) What motivates the use of budgetary systems in case study Chinese companies?
- b) What is the content and what are the processes adopted in the studied Chinese companies' use of budgetary systems?
- c) In terms of practices and concepts, to what extent and in what ways are case study Chinese companies' budgetary systems changing? Have these changes had positive or negative consequences?
- d) What are the similarities and differences in budgetary changes between the two companies studied?
- e) Can we use Western theories of change in management accounting to explain the studied Chinese companies' introduction of budgetary systems?

### **1.5 Research Process**

Because detailed study of Chinese organizations in the specific context of budgetary systems in Chinese electronic household industry has been rare, it is inevitable that this study has to keep testing the water and adjusting itself, to satisfy the requirements of being faithful to China's reality while testing applicability of Western budgetary system theories.

Different groups of management accounting theories concerned with budgetary changes have attempted to reveal the real nature of practices. They often recommend their own methods to approach studied cases, and their philosophical positions to explain findings. After calls in the 1980s, for management accounting studies which provide real insights into management accounting practices (for example, Johnson and Kaplan, 1987; Kaplan 1983, 1984, 1988), researchers have focused more on constructing theoretical development closely related with research reality (for example, Scapens 1984, 1994; Drury, et al., 1993). During the whole process of this thesis, this need for combining theoretical analysis with business practices serves as a common and principle which thread through the preparation, experiment, adjustment, data collection and data analysis conducted.

Management accounting theories using an interpretive approach (for example, Berry et al., 1985; Scapens and Roberts, 1993; Vaivio, 1999; Ahrens and Chapman, 2002; Siti-Nabiha and Scapens, 2005) suggest that researchers viewing management accounting practices from the practitioners' points of views. These researchers have provided a range of terms to explain the success or failure of management accounting changes. These terms are discussed in detail in chapter 2 and chapter 6. A limited number of interpretive studies have focused on budgetary systems. For example, Siti-Nabiha and Scapens (2005) used institutional theory framework in management accounting to show that companies in their study 'routinely used' budgets 'as a means of obtaining the resources needed for the planned activities', and to identify and explain the causes of 'pseudo' budgeting which, according to these authors, could not go beyond obtaining resources due to the existing production-orientation of these companies. However, in general, interpretive studies do not supply detailed and complete knowledge of budgetary systems. Earlier empirical studies of budgetary systems (for example,

Hofstede, 1968) have provided deeper insights in terms of both the technical and behavioural perspectives of budgetary systems, but these studies have in the vast majority of cases been conducted in a Western context. Critical management accounting studies have debated possible methodological implications. For example, Covaleski et al. (2003) discussed budgetary theories by classifying them into economic, psychological and sociological theories. But these studies also fail to provide detailed knowledge of budgeting or investigate the Chinese context. Further study was clearly needed to fully understand budgeting in the Chinese context. Hence, it was decided that an initial pilot study should be conducted to see what was really going on 'out there'.

The approach adopted in the pilot study was based on contingency theories in management accounting. This approach was adopted on the grounds that contingency theory establishes links between situational contingencies, budgetary systems and organizational effectiveness. Most of previous contingency studies on budgetary systems have been conducted in non-Chinese contexts. Nevertheless, the researcher adopted the contingency theory framework to design a detailed questionnaire (see Appendix I.) at the outset of data collection; in the pilot study (the methodology chapter will further introduce the researcher's experiences during the pilot study). The researcher recognized that such a detailed questionnaire could be difficult to implement in practice in the research context of this project. The heyday of contingency theory was over well before the mid-1990s. Nevertheless, it provided a 'platform' which allowed the researcher to examine a wide range of possible factors and their relationships with budgetary systems in studied companies. This approach was seen as of value in helping to recognize and identify relevant and irrelevant factors, and in the construction of a future set of questionnaires (see Appendix II.) which in practice, proved less detailed but more



applicable and insightful in the research context. Adopting this framework for the pilot study does not mean that the researcher underestimate the possible value of other frameworks. Instead, an open-minded attitude to different management accounting theories was necessary during the whole process of the pilot study, and only the reality of research experience was seen as capable of determining whether this framework was useful or not, sufficient or not, whether other frameworks were needed or not, and what was the most suitable approach to this thesis.

Session 1.2 in this chapter has already introduced the chosen methodology of this project's data collection. There had been discussions during conferences or colloquiums which the researcher attended, concerning the approach to data analysis in potentially data-rich study. As already explained in previous sections, this study is not quantitative by nature and based on statistical questionnaires, thus computer software like SPSS would not be useful. The question remained as to whether to analyse this study's data without the assistance of computer software, using instead free mapping, excel, and Words' tools, or whether to choose specific computer software which suits the very nature of this study. Following the pilot study (first round data collection), the researcher did a pilot data analysis without the assistance of extra computer software. Even at that early stage of data collection, a large amount of background information, research diaries (notes), interview transcripts, companies' own data (i.e. conference record) were accumulated. It proved hard to manage this level of data, to remember all of the data, to find clues among the data, to detect or deny factors relevant to budgetary systems and sort out their relationships. It therefore was also difficult to identify the similarities and differences between two studied companies, and to evaluate the

efficacy of using Western theories towards collected data in Chinese companies', with only one researcher and no specific computer software to be used.

Meanwhile, although at a more pioneer status than now, computer software QSR Nvivo was at the time recognized by academics doing qualitative studies (not being limited in the subject of business studies) the most advanced computer tool for qualitative analysis. It helps to systematically record and to organize data. Most importantly, it is only the researcher who decides how to record and how to analyse all the input while Nvivo is only an assisting tool which cannot meddle with data at any level. Hence, the use of QSR Nvivo as data analysis software of this study cannot substantially influence the procedure and results of data analysis and it will not introduce any bias to the findings. Based on these facts, the researcher attended workshops and trainings about how to use QSR Nvivo step-by-step, discussed with peers using NVivo in conferences of qualitative research, to gain experiences about how to use it properly from people who are not only fully equipped with knowledge about NVivo, but also are solidly grounded in qualitative research methodology. After these, the researcher did another pilot data analysis using QSR Nvivo 2.0 before the second round of data collection began, and discussed the quality of this data analysis with fellow researchers. Practices proved that this software suits the qualitative nature of this study's research design, suits studied companies' mishmash reality, and suits the multiple facets that budgetary systems may relate with. Hence, while Nvivo was updated to its version 8.0 after this study's second round data collection, Nvivo 8.0 was used for the overall data analysis of this project's data. It is this version that is adopted and quoted in this thesis. As Nvivo may be re-updated in the future, it is recognized that the change of versions won't alter the fundamental logic of this

tool, and hence will not influence the quality of findings recorded and analysed by Nvivo 8.0 adopted here.

The researcher transcribed the notes from participant observation (field notes) into 68 'project notes', in-depth interviews into 35 detailed Nvivo 'nodes', other important documents such as conferences notes were attached as linked documents. To be noted, there are certain parts of the data including one companies' budgets from 2004 to 2007; other conference records; other rules, regulations, bulletin board's information; both companies' production, sales and profits' information; as well as relevant newspapers or books were used as paper documents without being completely transferred (naturally essential information which relevant with budgetary systems were transcribed) to NVivo database of this study, considering the necessity of research needs and practical time limit. These paper documents were treated equally for data analysis. The aim of input into Nvivo, is to try to find out what do the studied companies practice in everyday business activities, how do they see budgetary systems, what relationships can be discovered between employees' concepts and behaviours concerning budgeting and relevant factors, what are the differences and similarities between two studied companies, and what are the reasons behind these. By answering these questions, we may discover when look into Chinese companies' budgetary practices, whether the understanding provided by Western budgetary studies is relevant or not. To serve this aim, the data was coded, and recoded, and recoded; grouped, and regrouped, and regrouped, until clues, threads, relationships, reasons, answers can be deprived clearly.

The researcher also gained practical experiences of research along the way. For example, while the researcher requested to do follow-up study towards one specific branch company at

the end of first round data analysis in one studied group company, the general manager of the investment group refused the request. However, through deeper trust gained by more communication over issues concerning management accounting and budgeting, by longer days spent together in the stressful business reality, the researcher was allowed to access into employees relevant with this branch company during the second round data collection two years later. This permission of follow-up study gained by deepened trust deeply benefited this research. The researcher was able to reveal the reasons of failure of this branch company's first year budgetary reform. It is achieved through investigating the group company's reactions towards responsible general manager, the chief accountant's opinions towards this incident, concepts and practices towards budgetary systems adopted by the new general manager of the same branch company, changes in group company's 'politics' and 'frontiers' of different power groups and their influences towards budgetary practices, and deeper cultural explanations underpinning these changes. It was a challenging process of theorizing and justifying research methods due to this study's pioneer status, yet it is also rewarding and interesting in its own way.

## **1.6 Thesis Structure**

This chapter introduces the context of this study as a whole, the following chapter (Chapter 2) firstly examines the existing literature regarding relevant budgetary theories organized on the structure given by Covalski et al. (2003)'s framework, together with a sense of each theory or group of theories' relative importance or contribution within the wider domain of management accounting. The purpose of this review is not to provide an exhausting literature of budgeting. Instead, it tries to set a literature background with an open-minded attitude towards the possibility of combining different theories, to implement each other in explaining

the rich in-depth longitudinal data collected in a different context of Chinese electronic household appliances industry, while one single budgetary theory cannot achieve this task. Secondly, because Covaleski et al. (2003)'s framework mainly covers Western budgetary studies, to complete theoretical support of this thesis, chapter 2 also will contain a section of literature review on relevant business studies towards China. While this section in chapter 2 will focus at the theoretical aspect, in other words, literature background in management studies towards Chinese companies and limited existing management accounting studies towards China, to set a common context which shared by Chinese companies who adopt budgetary systems, the task of introducing a more general cultural, historical, and social economical context of China, and a more specific background of where the case study companies are located in, will be implemented in chapter 4, before data analysis of this study formally starts.

The tasks of explaining the epistemological and methodological positions of this study will be satisfied by Chapter 3 of this thesis, based on Laughlin et al.'s framework of middle ranging thinking and its review on the philosophical underpinnings of previous management accounting research. Although the current chapter has already explained the choice of qualitative research design and the adopting of in-depth longitudinal case studies in two large Chinese companies, chapter 3 of this thesis will give a clearer picture of the motivations for using Laughlin et al.'s middle range thinking to locate this study's theory, methodology, and change; about the philosophical grounds of relevant budgetary theories which can contribute to this study's interpretation; about the detailed research methods and process; and about the detailed information of this study's data collection sites, companies, and industries. As 'all

empirical studies is partial' (Laughlin, 1995), limitations and advantages of chosen research methods will also be identified.

Chapter 4 starts a full section about a more general historical, cultural, and social economical background of China, to complement the previous introduction of literature towards Chinese business studies in Chapter 2. More specifically, this starting section of Chapter 4 will introduce Chinese accounting reforms which influence the macro environment who pushes studied companies to keep adjusting its organizational structure, and to deepen the use of budgeting as a normalizing procedure of the outside environment. Also, it will illustrate a picture of local culture in Shun De area which is very representative in introducing the problems and development in China's southeast coastal area, where China's economic revolution firstly started and most successfully achieved. This starting section about China in Chapter 4 will also include mentioning of certain recent events happening in a broader context of China: for examples, scandals' revelation implies both problems and a progressing process of regulating, and they then contribute to a social context which systematically influences studied companies' accounting and budgetary practices. It is based on this further discussion towards relevant perspectives concerning China's unique culture at this stage; chapter 4 starts the discussion towards research findings of this thesis.

As findings cannot be reflected only in one chapter, chapter 4's major task is to reveal other relevant management accounting changes when studied companies were implementing their budgetary reforms, to give us a picture about the changes of a broader management accounting context of case-study companies' through time, and their relationships with budgetary systems. We then learn that budgetary changes in both companies did not happen

alone. Instead they are embedded in the continuous changing environment of environment, organizational structures, technology, other managerial or I.T. systems and techniques, and people's concepts. Budgetary systems and these other changes interact with each other and they can only be understood together.

Chapter 5 continues the discussion towards this thesis' findings. In contrast to chapter 4, which tends to gain benefits from this longitudinal study, to investigate what happen in different perspectives of changes through time, chapter 5 stretches into a broader space, to discuss about the context and culture which has been introduced in chapter 2 and the starting section in chapter 4, and their influences towards budgetary systems in studied companies. Totally irrelevant to an outsider's eyes maybe, only these cultural factors and systematic structures framing changes can explain the nature of budgetary systems embedded in a series of other changes which were already introduced in the previous chapter 4 – is the budgetary process a bottom-up one with real participation in studied companies? Do studied companies base their management or strategic decisions on information provided by budgetary systems? If the value and use of budgetary information in studied companies are different from what they should be according to Western theories, what are the reasons, what are the consequences, how to improve? While chapter 4 gives us an organizational view of budgetary changes, other management accounting changes, and environmental changes, chapter 5 here gives us a sociological view which underpin the systems and psychology which in turn shape budgetary practices and concepts in studied companies in a deeper level.

While only based on the broader and deeper context introduced by chapter 4 and 5, studied companies' budgetary changes can be fully understood, chapter 6 then continues the data

analysis of this thesis by narrowing down towards the specific topic of budgetary change itself. As introduced in earlier parts of current chapter 1, Covalleski et al. (2003)'s study allows the possibility of not using one specific budgetary theory or one specific group of budgetary theories, instead, a selective integration of multiple theories are possible based on the real needs of research reality. Hence, budgetary variables, non-budgetary variables, and intervening variables relevant with budgeting discussed in this thesis study, shall not be limited by one budgetary theory or one specific group of budgetary theories. These variables included in budgetary theories belonging to different perspectives which are open to discussion in the current study based on how relevant they are with this project's data findings. The first task of chapter 6 is to analyse budgetary or non-budgetary variables, and other budgetary topics (i.e. budgetary participation) of studied companies. Naturally, a comparison of relevant Western theories and studied companies' budgetary practices will be revealed through this discussion. The second task of chapter 6 is to explain the overall change or maintenance of status quo. in studied companies' budgetary systems by using Scapens et al.'s Institutional Theory Framework of management accounting changes. According to data analysis of this thesis, this framework has appeared to be especially useful in explaining budgetary changes in a different context as China.

Since chapter 4 to 6 have mainly covered this study's data findings, the discussion and conclusion chapter 7 will then reflect back on the dissertation as a whole, to examine whether the original objectives and research questions are satisfied or answered, to examine the relevance of theories mentioned in earlier part of the thesis, relating to the context of China specifically. In other words, do Western budgetary theories match studied Chinese companies' budgetary practices? Why or why not? How to find a better fit between them, or how to



extend budgetary theories for the specific Chinese environment? Through this discussion, this chapter itself can contribute to narrowing the gap between Western budgetary theories and Chinese companies' budgetary practices. Based on the richness of this study's data which is rare in its specific research context at the moment, and based on the findings and context introduced in earlier data analysis chapters of this thesis, chapter 7 then will fulfil the contribution of knowledge by providing insights for future research towards China.

It should be noted, this thesis does not aim at providing a complete guide for any problem or difficulty towards Chinese companies' budgetary systems. Instead, through a thorough analysis towards selected Chinese companies' practices in budgeting and changes through years, this study can give a 'snapshot' of the reality. Also by combining this reality with a rich picture of research context, this study indicates general background of the context of management accounting (budgetary) studies in China. While each chapter has their own focuses, readers may choose to read each one for specific purposes. For example, chapter 2 provides a literature review relevant with Chinese budgetary practices, chapter 4 investigate other management accounting changes in studied Chinese companies and their relationships with budgetary changes. However, a more organic use of the thesis as a whole, can give the readers fuller ideas about what is China's context for management accounting practices? What are the possible methodologies to approach China? What difficulties and problems researchers encounter in the field? Are Western budgetary theories useful, and how to use them? And what are the deficiencies of Western experiences of budgeting when these experiences are applied in to the specific context of China? Only through a comprehensive understanding of this thesis as a whole, the spirit and major contribution of this endeavour

study can be appreciated, and this way of following the thesis is also what the author recommends.

## **1.7 Contribution**

This thesis presents a case study with two firms observed. Both companies are in China and this thesis especially focuses on the transition process in China. Diverse data is collected in a longitudinal study over a long period. Although focused on budgetary changes, this thesis contributes to the literature in its analysis of other managerial accounting and managing systems introduced during the span of observation. This study adds to the literature in the description of the change management process, an aspect which is not addressed frequently in common literature. It also gives insights into a very interesting Chinese background. It examines the applicability of Western theories of change in management accounting in the context of budgeting in Chinese corporations; hence it contributes qualitative empirical experience focusing on new cross-boundary context as theorising about China. This study deepens the understanding of management accounting change in China, and the tension which exists when Chinese companies introduce Western management accounting practices.

## **1.8 Summary**

To conclude, this first chapter has set the scene for the whole thesis. It has described why the research topic and context were chosen, what are the research objectives and questions and how they will be answered, what are the major problems and difficulties anticipated by the researcher during the research process and how the solving of them contributes to this study. It has also addressed the question of by which logic does the theoretical frameworks structure

this study and which methodology is chosen, how the data is analysed based on the combination of findings from data and these frameworks, how the thesis is constructed. Further it has described how the readers follow the flow of it. Through this introduction, the overall background of this thesis can be understood, as well as the major direction and contribution of knowledge of this thesis.

# **Chapter 2 Management Accounting Studies in the Context of Chinese Companies**

## ***2.1 Introduction***

The last two decades have observed diversified development in management accounting research which challenges the traditionalist mainstream. This diversified theoretical development embraces the recent changes and answers the lived experiences of the complex organizational reality in the time of globalization. It then suggests alternatives to the research about budgeting this chapter reviews the Western theory or theories of change in management accounting which can be relevant with the budgeting in Chinese companies. This includes the orthodox conventional knowledge as well as the interdisciplinary, qualitative, interpretive or critical research which focus at understanding the changing reality. Based on the literature review mentioned in this chapter, it can be maintained that different approaches in management accounting studies relevant with budgetary changes represent different ways of thinking. A certain approach may imply a preference of certain research methods, and a certain approach may be more appropriate under certain research circumstances. But there is no such an approach being absolutely 'superior' to the others. Neither has previous budgetary studies proposed a globally 'fit' framework, although there is a recent tendency to value 'thick' case studies for understanding changes in the practices.

According to the pioneering stage of both the theoretical development concerning budgeting in China, and Chinese companies' management accounting (including 'modern-term' budgeting) practices, it is suggested in this chapter that a qualitative case study allows rich findings to emerge from the data itself, to combine relevant literature without being limited to a certain 'school', and hence to reveal the 'real' picture of the research reality and to uncover the 'gap' between existing literature and the practice of the studied companies.

## ***2.2 Laughlin et al.'s Framework***

Among researchers who discuss ontology, epistemology and methodology of management accounting studies, Laughlin (1995, 2004) reviewed philosophical roots of management accounting studies and developed the theory of 'Middle Range' thinking adopting a 'middle degree' of theory, methodology, and change. This theory suggests empirical research to adopt 1) 'skeletal' theory with some broad understanding of relationships and possibilities of 'skeletal' generalizations; 2) definable and invariably qualitative approach which is subject to refinement in actual situations, using longitudinal, case-study based, heavily descriptive and also analytical data, while observers are important and always part of the process of discovery, derive findings that are reasonably conclusive to 'skeletal' theory and empirical richness. Both researchers and researched meanings contribute to validity criteria; 3) a 'medium' attitude towards change whose emphasis is on radical change and maintenance of status quo (extracted from Laughlin 1995, Table I: Some Key Characteristics of the Dominant Schools of Thought).

In spite of the criticisms this framework received (i.e. Hacking, 1999; Lowe, 2004), Laughlin's framework's contributions relevant to this study include following aspects; first,, the development of management accounting theories (including budgeting theories) has always been the coexistence of different theories underpinned by different philosophical foundations. Second, it is not appropriate to claim a certain management accounting (budgetary) theory or methodology underpinned by a certain group of philosophical construction is definitely superior to the others. Since as Laughlin (1995) said, 'accounting theory will never be like a theory of gravity. Accounting is a social practice conducted by diverse social actors', and 'all empirical research is partial and incomplete and that theoretical and methodological choices are inevitably made whether appreciated or not'. Third, management accounting researchers should have the sense of alternative ways of thinking, and make one's own choice of theory, methodology, and change according to philosophical considerations of the research reality.

The next chapter of methodology will further introduce Laughlin et al.'s framework, and discuss which philosophical underpinnings this research project will adopt. In this current section, Laughlin's framework is only used as to introduce different theories of change in management accounting, relevant with the budgeting in Chinese corporation. This current chapter also discusses the possibility of combining different theories.

### ***2.3 The Traditional Neoclassical Approach in Management Accounting Studies***

## **The Neoclassical Economics and its Criticisms:**

Although there is not a complete agreement on its definition, neoclassical economics is conventionally started by the works of Jevons (1871), Menger (1871), and Walras (1874-1877). According to Weintraub (in Henderson ed. 2007), neoclassical economics normally rests on three assumptions -- ‘people have rational preferences among outcomes’; ‘individuals maximize utility and firms maximize profits’; and ‘people act independently on the basis of full and relevant information’. Neoclassical economics emphasizes equilibrium which is the solutions of agent maximization problems. Usually being used to refer to mainstream economics, neoclassical economics actually includes different theoretical developments. Robinson (1933) and Chamberlin (1933) introduced models of imperfect competition; Hick (1939) presented a model of temporary equilibrium; Arrow-Debreau presented the model of intertemporal equilibrium (1954); ‘Keynesian Heresy’ combined neoclassical microeconomics and then these two arrived at the neoclassical synthesis; Neumann and Morgenstem (1944) added to the work of sophisticating mathematical models and originated the ‘Game Theory’ in economics introducing a set of players, while Shubik led it to ‘non-cooperative’ game theory with the neural network of financial institutions ‘emerges’ as a logical necessity of decision making in market economies; and Stiglitz, Akerlof, and Spence pioneered in ‘imperfect information’ in actual economic processes.

The normative bias, as well as the methodology of the neoclassical economics is criticized. It is considered to have unrealistic and over simplified assumptions, relying too much on mathematical models, ignoring human interactions and social sophistication, justifying elite

privileges, failing to predict economic events or solve serious economic problems, discouraging pluralism, and fearing methodological discussions. As Steve Keen (2001) said, ‘what neoclassical economists abstract from is interactions’, ‘they make everything an additive rather than a multiplicative process, which means they ignore the interactions between people and simply look at the isolated individuals. But in fact it is the interactions they diminish the possibility for those actions to occur and things fall apart.’ While the neoclassical economists (i.e., Jevons and Stanley, 1905) claim that neoclassical economy is scientific because it is mathematical and rational, Keen (2001) accused the so-called economic rationalists of usurping the word ‘rational’ and criticized the linear world which the neo-classical works mainly lie in. Arnsperger and Varoufakis (2005) stated that the neoclassical economics share three axioms in common, which are ‘methodological individualism’, ‘methodological instrumentalism’, and ‘methodological equilibration’. They also discussed neoclassicism’s discursive power and its aversion to pluralism, and maintained that ‘from experience, we can confirm that most neoclassicists believe strongly in the theoretical superiority of their models and may even have a moral commitment to pluralism’. In addition, for the construction of theories, Hausman (1992) claimed that ‘few writers on economic methodology recognize that the activities of formulating economic models and investigating their implications are a sort of conceptual exploration’, ‘instead, most mistakenly regard these activities as offering empirical hypotheses and assess them in terms of some philosophical model of confirmation or falsification.’

Despite the criticisms, the neoclassical approach has influenced many domains. It is unfair to condemn the whole neoclassical group that it has never considered any other perspectives in



spite of rationality and equilibrium without interactions. Partly as the reactions to the criticisms (for example, the criticisms based on Herbert Simon's theory of bounded rationality 1972, 1979), some of the later developments of the neoclassical group justify the role of the actors, the interaction between actors, and the bounded rationality. 'In opening the box of human subjectivity, game theorists posit ad hoc variables to account for the decision-making of individual economic actors, and the game theory includes a regression into language and culture'. The psychological game theory (Rabin, 1993; Hargreaves-Heap and Varoufakis, 2004) relates what one wants with what he/she thinks others expected him/her to do, and the latter depends on the social structure in which the decision is embedded. Evolutionary game theory (Smith and Price, 1973) focuses on strategy change rather than strategy equilibrium. However, even with the justification and later development, the neoclassical group as a whole is still positive and instrumental paying not enough attention to the behavioural perspectives and thus it is insufficient to explain the complexities of the changing society. Leontief (1982) for example, called for 'a systematic understanding of the structure and the operations of a real economic system'. And Sugden (1991) suggested, 'economic theorists may have to become as much philosophers as mathematicians'.

### **The Influences of the Neoclassical Approach in Management Accounting:**

The positivist logic of the traditional neoclassical approach has influenced many areas. In the Classical School of organization / management theories, Taylor (1947) used organization and methods (O & M) analysis to find the standard costing to achieve the 'optimum' result in his scientific management theory; the studies by Follett (1924), Fayol (1949) of administrative

theory, sought to discover the best way to structure organizational activities for the effective accomplishment of organizational objectives and they give hints to the theoretical foundation of the responsibility accounting. In general, these theories share the assumption that organizations are rational entities whose goal is to pursue maxim benefits and efficiency through economic calculations, based on hierarchical and horizontal structural design and operating in closed and changeless systems without interactions with outside environment. Individuals, in correspondence, are supposed to be rational economic beings solely motivated by monetary incentives and 'be reduced to the level of cogs in a machine' (Burnes, 1996). Based on this logic and assuming it as universal truths, 'the one best way' then could be achieved. Furthermore, according to the discussion by Reed (1992), theorists who hold the view of industrial society and regard 'technological and organizational rationalization' as the 'cognitive driving force of modernization' would take economic rationality as an explanation of long-term institutional change. For the criticisms, Argyris (1964) mentioned the restricted psychological growth of individuals and the feelings of failure, frustration and conflict caused by the Classical Approach.

As to management accounting, researchers began refining the neoclassical framework, which was developed in 1960s, in early 1970s. Similarly with the Classical Approach in organization theory, this theoretical framework treats individuals as rational ones who can make decisions based on reasonable analysis. Also, the profit maximization is the overall goal of the organization. Thus, optimal results could be attained. As Vancil (1973) argued, profit centre is a major tool for management control in large industrial corporations. Profitability is a simple way to analyze and monitor the effectiveness of a segment of a complex business; and profit

responsibility is a powerful motivator of men. The profit maximizing neo-classical framework enables us to evaluate and improve budgeting system according to the simplified profit device. Also, it supports many quantitative techniques and empirical studies in this area. For examples, see Charnes et al. (1972) and Feltham (1970). In general, the major limitation of the neoclassical approach in management accounting is due to the facts that individuals are not ideally 'rational' ones, neither do their decisions. Moreover, political compromises and trade-offs exist in the organizations. One major technical dispute between the conventional management accounting wisdom based on the neoclassical economic theory and the management accounting literature claiming the relevance with the actual business practice is the decision making of prices. The former uses a relevant cost decision approach and the latter uses a full cost plus approach. Lucas (2003) mentioned that Friedman (1953)'s defense that 'it is the outcomes of decisions that matter – not the decision process itself' reviewed the studies concerning full cost pricing in accounting research ('Shim and Sudit, 1994; Edmore and Ness, 1991; Cooper, 1990; Govindarajan and Anthony, 1983; Gordon et al., 1980; Drury and Tayles, 2000; Bright et al., 1992; Finnie and Sizer, 1983; Scapens et al., 1983', quoted in Lucas, 2003). He concluded that both directions neglect the possible insights provided by the other and proposed to solve the problem by an institutional economic approach. While the technical issue of price decision does not occur to be the major concern of this thesis, the dispute does imply the doubts towards the neoclassical approach in management accounting studies.

In short, while the limitations of the neoclassical approach stimulates the development of many other approaches to explain the complexity or the changing process of the phenomenon which

could not be explained by the neoclassical approach, and there exist technical disagreements towards certain issues using the neoclassical approach in management accounting studies, the neoclassical approach's long-term influences in management accounting focusing on the profits, rationality, and technical matters should not be ignored.

### **Neo-Classical Approach's Relevance with This Study:**

Relevant with this research project, when Chinese people's ways of thinking were firstly liberated from a central planning economic system, the earliest transformation was done towards a collective consciousness of 'profit maximization'. While profit-oriented behaviours have been taken for granted in the Western society, it took a series of policy changes and years of debate for the Chinese government and society to finally reach this transformation. This is the underpinning concept of China's economic reform (refers to chapter 4). For an example of the conceptual conflicts caused by 'neo-classical' 'profit maximization' transformation in China, there were a series of suicides committed by a number of intellectuals at the beginning of China's economic reform, who believed that communist ideal is against private benefits' differences. Concerning the Chinese accounting practice, neo-classical's influences mainly lie on the use of responsibility accounting systems (Scapens and Meng, 1993) in the last century, especially at the early stage of Chinese companies' ownership or management reforms. Since then, the neo-classical approach's fundamental concept has affected Chinese companies' concepts and behaviours. The concept of profit maximization is still the central goal of Chinese companies (for example, case study Company A's strategy is profit oriented). Cost reduction and profit maximization are main motivations and major goals for the case study companies' use of

management accounting systems and techniques such as budgeting. Nevertheless, responsibility accounting underpinned by neo-classical economic theories is no more new to the Chinese practitioners. To adopt Western management accounting systems and techniques such as budgeting, and to adapt them into Chinese electronic household appliances industry, rather than the concept of ultimate achievement of rational goals, Chinese companies need to understand something more and something new to help them to move on. Hence, this thesis doesn't deny the influences of neo-classical economic thinking at work in case study companies. However, the focus of this thesis is not these already known influences. Instead, this thesis focuses on the process of case study companies' management accounting changes in the context of budgeting. It takes other management accounting theories of change to explain this process.

## ***2.4 The Contingency Theory Approach in Management Accounting Studies***

### **The Human Relations Approach in Organization Studies**

With the growth of organization size and complexity, researchers try to use other approaches for management or organization studies. The human relation movement in the behavioural school is one of them. 'Hawthorne Experiments' by Elton Mayo and his colleagues, which took place in the Western Electric Company's Hawthorne Works in Chicago in 1920s and 1930s, were originally designed as a work of Classical Approach, while it turned out to be resolved by special attention to workers (Mayo, 1933). They suggested that the way people were treated had an

important impact on the performance. Individual and social processes played a major role in shaping workers' attitudes and behaviour. Therefore, management must recognize the importance of workers' needs for recognition and social satisfaction. Mayo termed the concept of the **social man**: 'individuals are motivated by social needs and good on-the-job relationships and respond better to work-group pressure than to management control activities'. Barnard (1938) put forward the idea of organizations as co-operative systems. Maslow (1943) identified 'five distinct hierarchies of human needs' ---- 'physiological needs', 'safety needs', 'social needs', 'esteem needs', 'self-actualization needs'. McGregor (1960) discussed two commonly-held views of human nature: a negative view – Theory X and a positive view – Theory Y, and believed that organizations were moving, and should move, more in the direction of Theory Y. That is the organizations can take advantage of the imagination and intellect of all its employees.

As a whole, the Human Relations Approach denied the over simplified rational assumptions about individuals and organizations advocated by the Classical Approach. Instead, they claimed people to be emotional and social, organizations to be co-operative as social systems and to be composed of both informal and formal norms, and procedures. However, they ignored the outside environment of the organizations while they focused on solving inner problems from a behavioural perspective.

### **The System Approach in Organization Studies**

A substantial change of organization theory dates back to the mid-1950s and impacts on the management accounting from 1975 are the systems approaches. Systems approaches not only study the inter-relationships of the organizational activities themselves (Schein, 1980), but also relate them with the external environment. A two-way interaction (vice-versa) is considered. Also, the interaction is a dynamic process. The conventional closed system is shifted to the open system perspectives. 'The universally absolute knowledge is shifted to relative and general perceptual and conceptual knowledge' (Bailey, 1994).

Based on the open systems theory by Katz and Kahn (1966) and Litterer (1969), systems are 'holistic', characterized by 'input', 'transformation and output', 'exhibit teleology', 'have hierarchies' and are controlled through 'a mechanism of information input, negative feedback and coding' (quoted in Anthony G. Puxty, 1993). As Katz and Kahn (1966) said, 'system theory is basically concerned with problems of relationships, of structures, and of interdependence, rather than with the constant attributes of objects.' More specifically, Boulding (1956) constructed his famous model of 'system hierarchy', which included the 'static structures of frameworks'; 'simple mechanical systems'; 'cybernetic', or 'closed-loop systems', 'with given goals'; 'open, self-maintaining systems'; 'plant, or society of cells'; 'animal, characterized by the brain'; 'human, characterized by language and self-consciousness'; 'social organizations'; and 'transcendental systems'. Otley et al. (1993) mainly used the level 3 and level 4 (and a reference to the level 9) for the control process. After reviewing earlier studies used an open-system approach (Bertalanffy, 1950; Parsons, 1961; Miller, 1955; Emery and Trist, 1969; Thompson, 1967; Dill, 1958; Thorelli, 1967; Katz and Kahn, 1967; Etzioni, 1964; Eisenstadt, 1964; Glasser

and Strauss, 1965; Lefton and Rosengren, 1966; Burns and Stalker, 1961; Lawrence and Lorsch, 1967), Negandhi (1975) reported ‘the findings of an empirical study of 126 industrial firms located in seven countries’ of a cross-cultural study about the organization theory in an open-system perspective.

The traditional management studies using a closed system approach’s tendency to ‘view the human organization as a closed system’ has ‘led to a disregard of differing organizational environments and the nature of organizational dependency on environment. It has also led to the overconcentration on principles of internal organizational functioning with consequent failure to develop and understand the processes of feedback which are essential to survival’ (Katz and Kahn, 1967, quoted in Negandhi, 1975), for studies relevant with management accounting using a system approach, theoretical confusion can be noticed when the major contingencies that are believed to affect organizational design are examined, which includes the nature of the production technology employed (Woodward, 1958), the stability of the product – market environment (Burns and Stalker, 1961) whether product markets are homogeneous or heterogeneous in nature (Thompson, 1967) -- and the organization’s competitive strategy (Chandler, 1962). It is argued that ‘even as one of the most complete empirical studies did by the Aston group (Pugh and Hickson, 1976), the results is still somewhat disappointing since it has been primarily cross-sectional in nature with only quite low correlations being found, and connections with any underlying theory have been tenuous’ (R. W. Scapens, 1984). Although confusions exist and the results of the empirical studies are not perfect, ‘the underlying premise of system theory is sound: the design of organizational structure is an important mechanism for



achieving organizational control, and different structures are appropriate in different circumstances' (Otley et al., 1993).

Actually, as Otley et al. (1993) mentioned, the basic premise for understanding organizational behaviour is that 'the organization is profoundly affected by, and dependent upon, its environment, and that its ultimate survival is determined by the degree to which it is able to adapt and accommodate itself to environmental contingencies'. This then 'became the foundation of the contingency theory, which has dominated the behavioural management accounting research from about 1975 (Otley et al., 1993)'.

### **The Contingency Approach in Organization Studies**

As it is mentioned in the previous paragraphs, while the neoclassical approach emphasizes rationality and profit maximization as the 'absolute truth', the human relations approach pays attention to the perspectives of 'social men' instead of 'economic men' and ignores the outside environment. The system approach recognizes the inter-reactions within the organization as well as the dynamic interacting relationships between the organization and the environment and thus influences the development of the contingency approach. The Improvement made by the Contingency Theory Approach was considering human beings as limited rational individuals, combining the rational and behavioural sides of organizations whose operation could be considered as an 'open system' interacting with environments, and thus there is no 'one best way', but suitable solutions contingent upon contextual status. 'Contingency' here refers to the

immediate (contingent or touching) circumstances. It should be recognized that the contingency approach is not really new because Taylor (1911) already emphasized the importance of choosing the type of management best suited to a particular case. Fayol (1949) also found that there is nothing rigid or absolute in management affairs.

At the beginning, the contingency school of management started from the 1960s and 1970s largely focus on the situational factors affecting leadership style and organizational structure of the organizations under different circumstances. Later, the contingency approach were also applies to other aspects of the management. For the contingent studies concerning leadership style, Fiedler (1967) suggests that ‘the degree to which subordinates like or trust the leader’, ‘the degree to which the task is structured’, and ‘the formal authority possessed by the leader’ are key determinants of the leadership situation. Task-oriented or relationship oriented leadership works fits the characteristics of the situation. Other contingency leadership theories were developed as well. However, empirical research has been mixed as to the validity of these theories.

For the contingent studies concerning the organisation, the contingents include environmental uncertainty and dependence (Burns and Stalker, 1961; Child, 1984; Lawrence and Lorsch, 1967; Pugh, 1984; Robbins, 1987; Thompson, 1967), technology (Woodward, 1965; Perrow, 1967, 1970; Hickson et al, 1969; Thompson, 1967; Zwerman, 1970); and Size (Blau, 1970; Mullins, 1989; Pugh et al, 1969 a and 1969 b; Scott, 1987). In general, stable environments suggest mechanistic structures that emphasize centralization, formalization, standardization, and

specialization to achieve efficiency and consistency. Certainty and predictability permit the use of policies, rules, and procedures to guide decision making for routine tasks and problems. Unstable environments suggest organic structures which emphasise decentralization to achieve flexibility and adaptability. Uncertainty and unpredictability require general problem solving methods for non-routine tasks and problems. Lawrence and Lorsch (1967) suggest that organizational units operating in differing environments develop different internal unit characteristics, and that the greater the internal differences, the greater the need for coordination between units. Concerning the technology, Woodward (1965) found that financially successful manufacturing organisations with different types of work technologies (such as unit or small batch; large-batch or mass-production; or continuous-process) differed in the number of management levels, span of management, and the degree of worker specialization. She linked differences in organization to firm performance and suggested that certain organizational forms were appropriate for certain types of work technologies. Furthermore, technological changes can significantly affect the organisation. Concerning the size of the organisation, studies show that small organizations can behave informally while larger organizations tend to become more formalized. The owner of a small organisation may directly control most things, but large organisations require more complex and indirect control mechanisms. Large organisations can have more specialised staff, units, and jobs. Hence, a divisional structure is not appropriate for a small organisation but may be suitable for a large organisation.

In addition to the contingents identified above, customer diversity and the globalisation of business may require product or service diversity, employee diversity, and even the creation of

special units or divisions. The availability of support institutions and the availability and cost of financial resources may influence an organization's decision to produce or purchase new products. Economic conditions can affect an organization's employment and layoff practices as well as wage, salary, and incentive structures. Modern information technology both permits and requires changes in communication and interaction patterns within and between organizations.

Although the development made by the Contingency Theory Approach has been recognized, it is still be criticized for its lack of theoretical foundation, being 'intuitive', not paying enough attention to human perspectives, un-agreed definition of key variables, the presence of conflicting objectives, and insufficiency in certain issues like structure (a more detailed list of these weakness has been indicated by Burnes, 1996). Nevertheless, the contingency approach does provide suggestions about relationships between the internal and external environment of the organizations. The contingency studies in the domain of management or organization studies directly influence the management accounting research using the contingency approach.

### **The Contingency Theory Approach in Management Accounting**

The system approach and the contingency theory approach in organization theory, has brought a substantial change in management accounting from about 1975. The contingency theory approach in management accounting denies an 'absolute' universal solution but considers 'contingent fit' instead. The contingency theory approach in management accounting uses the term of 'effectiveness' which is thought to be concerned with the attainment of objectives,

instead of 'profitability'. And in understanding the organizational behaviours, the basic premise is that 'the organization is profoundly affected by, and dependent upon', 'its environment', and that its 'ultimate survival is determined by the degree to which it is able to adapt and accommodate itself to environmental contingencies' (Emmanuel et al., 1993).

According to Emmanuel et al. (1993), 'while the pioneer work of the Contingency Approach in organization theory could be traced back to Burns and Stalker (1961) and Woodward (1965) in management accounting, it was Hopwood (1973) who took a more formal (statistical) analysis of the budgetary information. His concern for the generalizability of the results subsequently led researchers, beginning with Otley (1978), to adopt a contingency perspective, which denies the one best practice of all the time. What they have done is trying to figure out the situational factors, called contingent variables, influencing the management accounting information system'. Also, these researchers classified contingencies in these studies into main categories followed underneath:

'A. Environment:

Khandwalla (1972) studied the intensity and types of competition; Otley's (1978) research was about different environments; Gordon & Miller (1976) discussed dynamism, heterogeneity, and hostility; Waterhouse and Tiessen (1978) applied simple-complex, and static-dynamic while Thompson (1967) and Hayes (1977) did the continuous work; Amigoni (1978) found out 2 contingent variables which are called the degree of structural complexity of enterprise and the degree of turbulence in its environment; Gordon & Narayanan (1984) examined 3 variables

including the perceived environmental uncertainty, the organic forms of organizational structure, and the use of external, non-financial and ex-ante information. Others' works include Govindarajan (1984), Khandwalla (1977), Pfeffer (1981, 1982), Otley (1980), Galbraith (1977), Mintzberg (1979), and so on.

#### B. Technology:

Woodward (1958), Pippenger (1978), Daft & Macintosh (1978), Perrow (1967), Waterhouse & Tiessen (1978), Merchant (1984, 1985), etc., all try to find the connection with production technology. However, in all these studies, the evidence linking technological, organizational and managerial variables with overall effectiveness is still weak, and even the definition of the variables involved is often vague.

#### C. Size:

Williamson (1970), Merchant (1981), Bruns & Waterhouse (1975), Jones (1985) did study in this area. Chapter 3 of this thesis will further explain why choose large sized companies as case study companies for this research project based on Merchant's study. In spite of this perspective, Merchant also researched the relationships between the budgetary control at different hierarchy level. His suggestion of treating size as an independent variable (Merchant, 1984), is different with that of Otley's "vice versa" idea in 1978.

#### D. Strategy:

Dermer (1977), Chandler (1962), Govindarajan and Gupta (1985), Merchant (1985 a) worked on the important phase of company strategy. However, according to their empirical study, the effect of strategy on control systems design is still unclear. Also, the time-span of the control needs to be clearly specified.

#### E.Culture:

Flamholtz (1983) set up a 4 elements model while Markus & Pfeffer (1983) and Pfeffer & Salancik (1978) discussed about the power relationship. Although the research of the impact of culture upon control systems design is of evident importance, it is still in its very early stage.

Because of the limited findings in the empirical research, how the contingency theory is applied rather than how the contingency theory has been underlying, the difficulties in defining and measuring the contingent variables, the vagueness of the concept of organizational effectiveness, and the previous studies applied on large scale, cross sectional and even data collection methods have been limited for the contingency studies in the management control (Emmanuel, et al., 1993). According to Puxty (1993), the management accounting research using the contingency theory approach is 'ahistorical' since 'only cross-sectional variables from questionnaires are included in the models. Therefore, by implication, historical factors are of relatively little import'; is 'rationalistic' because 'it supposes that the systems uncovered are either deliberately designed in the way they operate so as to achieve a purpose, or else that they developed over time through a process of Darwinian attrition: and that it is purportedly value-free and apolitical (since nothing remotely political is ever mentioned)'. As an early advocator of the contingency theory approach

in management accounting, Otley (1980) also did an early critical review of this group of studies, and proposed a framework for the evaluation of contingency theories of management accounting. Gerdin and Greve (2007) reviewed the conceptualization of contingency which is fit in the management accounting system literature, as well as commonly used statistical techniques in management accounting studies, to examine the appropriateness of combining these two. However, the functionalist contingency framework of control systems design, in conjunction with the organizational design literature that preceded it, provides valuable guidance in conceptualising importance issues in accounting information systems design' (Emmanuel, et al., 1993).

### **The Relevance of Contingency Theory Approach and This Study**

It is not surprising that studies of the Chinese enterprises are overlapped with the topics discussed by contingency theory approach in organization studies or management accounting studies. However, due to China's pioneering stage in management accounting studies (refer to 2.), contingency theory approach is not widely known in China. It is hard to find systematic studies of Chinese companies using a contingency theory approach, in the context of budgeting in electronic household appliances industry. Hence, the detailed questionnaire based on contingency theory approach in management accounting used by the researcher in this project's pilot study was not found useful. Many interviewees have not even heard about certain jargons included. Furthermore, phenomenon observed in a different context as China (refer to chapter 4 and 5 for China's unique context) sometimes cannot be explained by Western contingency theory



management accounting studies relevant with budgeting alone.

However, although a statistical study based on a detailed questionnaire adopting a contingency theory approach did not work, Western theory of change in management accounting adopting a contingency theory approach still can be applied to this study's context in a different way. The findings of this research (chapter 4) proves that budgetary changes do not happen in isolation from other management accounting changes; Chinese companies' budgetary practices cannot be totally unique. Hence, the second set of questionnaire (refers to Appendix IV) was used during two rounds of data collection in case study companies. This set of questionnaire adopts an interpretive and constructive worldview, but uses the content (main themes) of contingency theory approach in management accounting to open up conversations with interviewees, and to comb patterns in case study companies' budgetary changes.

Since the late 1970s, the gaps between management theories and practices have been noticed (i.e., Scapens, 1984; Scapens, 1994; Drury, et al., 1993). Management accounting theories has been criticized for not keeping up with the new changes in manufacturing technology, emphasizing on financial accounting rather than management accounting, being irrelevant to actual management accounting practice (Johnson and Kaplan, 1987; Kaplan, 1983, 1984, 1988), and failing to achieve organizational goals (Berliner and Brimson, 1988). Moreover, both the theoretical and methodological perspectives of mainstream management accounting approach have been criticized. 'Schism' Committee of the AAA, 1977-1978; Hopwood, 1984; Burchell et al., 1980;

and Kaplan, 1984 (cited in Chua, 1986) pointed out weakness in their theoretical works. And for the methodologies of mainstream management accounting theories including contingency theories, confused the notion of empirical testability, hypothetic-deductive search of universal regularities, and causal relationships and generalizing relations whose assumptions about 'scientific' explanation are discussed (Chua, 1986). Hopwood (1983) called for management study in the contexts. Scapens (1985) wrote in the Editorial of 'Accounting, Organizations and Society) that, 'in particular, there remains a very real need for the new approaches to confront more explicitly the intricacies and complexities of accounting as it now is', and he suggested that, 'further emphasis will be placed on relating cognitive, organizational and social analyses of accounting to substantive developments occurring in associated social science disciplines.' Under such circumstances, management accounting researchers investigate alternative approaches. Chua (1986) reviewed philosophical assumptions about knowledge, the empirical world, and the relationship between theory and practice in accounting development and suggested two alternative perspectives for research – the interpretive and the critical. They provide perspectives to understand management accounting issues including management accounting changes different from the orthodoxy management accounting approaches

## ***2.5 Institutional Theories and Neo-Institutional Theories in Sociology:***

### **The History**

Ideas about institutions originated in early Greek philosophy. At the turn of the 19<sup>th</sup> century to the 20<sup>th</sup> century, sociologists tried to develop the theories systematically. Significantly, Max Weber focuses his work on bureaucracy and rationality. Weber (1947) identified three types of authority ---- ‘rational-legal’, ‘traditional’, and ‘charismatic’. According to him, rationalization (of which bureaucratization is a part) as a shift from a value-oriented organization and action (traditional authority and charismatic authority) to a goal-oriented organization and action (legal-rational authority), results in a ‘polar night of icy darkness’. In other words, increasing rationalization of human life traps individuals in an ‘iron cage’ of rule-based, rational control. Besides, Weber uses ‘Verstehen’ (understanding/ Interpretive Sociology) and Antipositivism (humanistic sociology) as the methodological justification for the assumption of the ‘rational economic man’ (homo economicus). Although the Austrian School of Economics criticized Max Weber (Carl Menger, Friedrich von Weiser, Friedrich von Hayek, Daniel Yergin, Joseph Stanislaw), their later generation’s methods are indebted to the work of Weber.

After political institutions dominated political science in U.S. and U.K. until the post-war period, in 1980s, neo-institutionalism/ new institutionalism revived. Paul DiMaggio and Walter Powell (1983, 1991)’s revisit to Max Weber’s ‘iron cage’, Douglas North (1980s, and 1990)’s achievement in institutional change and economical performance, and the other numerous works in different disciplines reflect the revival. They try to answer questions which cannot be explained in the neo-classical framework. For example, questions such as ‘why institutions produced results that in the long run did not manage to produce economic growth’ (North, 1993), or how organizational conformity reduces efficiency cannot be answered. Not only the old

institutional focus on formal rules ('by the book' procedure) and value-maximizing rationality, but also a new focus on the role of norms, symbols, myths, belief systems, and informal arrangements forming the culture of the organization.

The tension between institutional (legitimacy) and technical (efficiency) pressures is an important topic within this area, which also helps to answer the problems mentioned above. Organizations are considered to be influenced by normative pressures, arising from external sources such as the state, and the organization itself. Under some conditions, these pressures lead the organization to be guided by legitimated elements, from standard operating procedures to professional certification and state requirement, which often have the effect of directing attention away from task performance. Adoption of these legitimated elements, leading to isomorphism with the institutional environment, increases the probability of survival. For the discussion about the institutional and technical pressures in management accounting studies, Cruz, Major and Scapens (2009) can be referred to as an example, they argued that 'some accounting researchers have already started to extend neoinstitutionalism by explicating agency, as well as dialectics, in the study of accounting practices at the intra-organizational level (see for example Dillard et al., 2004; Hopper and Major, 2007). For them, organizational actors can transform imposed accounting practices whenever, in their enactment, the actors experience contradictions and conflicts resulting from tension between institutional and technical pressures. In these accounting studies, variations in the imposed practices are typically conceptualized as stemming from actors resisting institutionalization or, in other words, following divergent change processes'.

## **Examples of Typology about (New) Institutionalism and Criticisms**

Hall and Taylor (1996)'s typology included three traditions of new institutionalism: First, Rational Choice refers to public choice theory (Buchanan and Tullock, 1965) and other forms of analysis based on the assumption that decision makers are rational, self-interested optimizers; or to social choice theories (Arrow, 1951; Arrow and Reynaud, 1986) based on rational voters, principal-agent theories (Spence and Zeckhauser, 1971; Ross, 1973; Jenson and Meckling, 1976; Harris and Raviv, 1978) focusing on contracts and incentives linking superiors to subordinates or agents; or to market theories in general which also focus on optimization by individuals in markets. While Rational Choice theories seek to analyze decisions affecting institutions, and this tradition is often seen as a contrast to rather than part of institutional theory.

Second, the Historical Institutionalism defines institutions as 'formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity of polity economy'. On the one hand, the Historical Institutionalism accepted that conflict among rival groups for scarce resources lies at the heart of politics, but the issue developed which institutions matter and how they matter. On the other hand, the Historical Institutionalism accepted that polity is an overall system of interacting parts, but regarded the institutional organization of the polity political economy as the principal factor structuring collective behaviour and generating distinctive outcomes, instead of taking the social, psychological, or cultural traits of individuals as the parameters driving much of the system's operation. Hall and Taylor (1996) regarded the Historical Institutionalism (i.e. Immergut, 1992) as 'eclectic' since it uses both of the 'calculus approach' and the 'cultural approach' to 'specify the relationship between institutions and action';

discussed the attention given by the Historical Institutionalism (i.e. Steinmo; Weir) to the way in which institutions distribute power unevenly across social groups; analyzed that the Historical Institutionalism ‘stress(es) the unintended consequences and inefficiencies generated by existing institutions in contrast to images of institutions as more purposive and efficient’.

Third, the Sociological Institutionalism which differs from sociologists following Weber who sees ‘the bureaucratic structures that dominate the landscape, in government departments, firms, schools, interest organizations and the like, as the product of an intensive effort to devise ever-more efficient structures for performing the tasks associated with modern society’, and argues that ‘many of these forms and procedures should be seen as culturally specific practices, akin to the myths and ceremonies devised by many societies, and assimilated into organizations , not necessarily to enhance their formal means-end efficiency, but as a result of the kind of processes associated with transmission of cultural practices more generally’, and ‘even the most seemingly bureaucratic of practices have to be explained in cultural terms’. The Social Institutionalism broadens the definition of ‘institutions’ to include not only ‘formal rules, procedures or norms’, but also ‘symbol systems, cognitive scripts, and moral templates that provide the “frames of meaning” guiding human action’, thus ‘breaks down the conceptual divide between “institutions” and “culture”’. Not only the Social Institutionalism ‘seeks explanations for why organizations take on specific sets of institutional forms, procedures or symbols’, ‘emphasizes how such practices are diffused through organizational fields or across nations’, but also it emphasizes the interactions between institutions and individual actions, while ‘action is tightly bound up with interpretation’. Furthermore, the Social Institutionalism takes an approach to explain how

institutional practices originate and change by arguing that ‘organizations often adopt a new institutional practice’ because ‘it enhances the social legitimacy of the organization or its participants’ and it is widely valued in ‘a broader cultural environment’, thus in some cases ‘these practices may actually be dysfunctional with regard to achieving the organization’s formal goals.’

Hall and Taylor (1996) compared the three traditions and discussed the limitations. The three traditions of the new institutionalism do not tend to deny the rational, instrumental, or means-ends side of the individual or the institution. However, they provide different perspectives to posit the role of individual actions, to explain the reasons and processes of the interactions between individual actions and the institutions, and thus situate the meaning of ‘institution’ within different boundaries.

**DiMaggio (1998)’s Typology of Three (New) Institutionalism, which are seen as originating from economics, sociology, and political science, respectively:**

First, Rational-action Neoinstitutionalism sees actors as stable and exogenous, individual rational action is channeled by the ‘rules of game’ including ‘laws’, ‘inherited organizational forms’, and ‘norms’, and the institutional change is an effect of strategic action of individuals or of selection mechanism. Second, Social-constructivist Neoinstitutionalism considers actors, interests, and preferences to be ‘socially constructed’ and endogenous. The informal institutions, including ‘schemata’, ‘roles’, and ‘scripts’ are taken for granted and become the focus of the research.

Institutional change is a process of isomorphism or diffusion through mechanisms of pressure to appear legitimate and normative schemes embedded in training and practice. Third, Mediated-conflict Neoinstitutionalism regards state and other institutions as to structure and mediate conflict among interests groups, which in turn influence the stability and change. In other words, power resources rather than cognitive resources are used to explain institutional changes.

Nielsen (2001) reviewed DiMaggio (1998)'s typology, and Théret (2000)'s work as DiMaggio (1998)'s elaboration. Nielson (2001) regarded DiMaggio (1998)'s work as 'stimulating' in its 'attempt to develop conceptual tools to cut through the confusion and myopia among observers of the burgeoning field of institutionalist thought', but partly disagreed with its omissions or misplacements. Instead, Nielson (2001) proposed four common theoretical assumptions and three methodological differences between some of the institutionalist approaches. The former includes 'human agency is seen as purposeful, or intended rational, endowed with some freedom to deliberate or choose in accordance with individual psychology rather than, on one hand, as irrational, automatic rule-followers or totally encapsulated in an externally defined role or, on the other hand, rational in the sense of isolated maximizing "economic man"; they emphasize the constitutive importance of the cultural and cognitive framework; they recognize the central and pervasive role of power and conflict; and they focus on the role of institutions such as habits, routines, and norms in the coordination of behaviour'. The latter includes 'the distinction between open system and closed system methodology; the distinction between positivist and post-positivist approaches; within post-positivist approaches, the distinction between realist and



idealist ontologies and collaboration can only be fruitful ‘with approaches sharing characteristics’.

While the (new) institutional theories keeps developing (i.e., Schmidt 2008 discussed about the newest ‘new institutionalism’ – discursive institutionalism) and includes a variety of theories, other types of typology remain the same. For example, Lowndes (1996) reviewed new institutionalism and discussed positions captured in six ‘vignettes’, namely, ‘the “mythic” institution’; ‘the “efficient” institution’; ‘the “stable” institution’, ‘the “manipulated” institution; ‘the “disaggregated” institution’; and ‘the “appropriate” institution’. He then proposed three key variables ‘to produce a series of propositions about institutional and institutional change’ which are formal/informal, stable/ dynamic, strategic action/ norm-governed behaviour, and concluded that ‘institutions comprise a set of formal and informal rules which structure social action and are shared within a particular organization or community’, ‘change and stability are stages in an institutional lifecycle’, and ‘strategic action plays an important role in driving institutional change, whilst norm-driven behaviour is a key force in sustaining institutional rules over time’ . We are not trying to do an exhausting exhibition of the typologies of (new) institutional theories. Instead, it is agreed that as Lowndes (1996) said, although ‘confusion over terminology and levels of analysis is rife’ among numerous theoretical works, ‘yet the variety of positions – sometimes competing and sometimes complementary – is actually a source of strength’, while ‘institutional analysis benefits enormously from the surface of diverse theoretical and intellectual position’ to explain institutional stability as well as institutional change; habit persistence, institutional lock-in, self-reinforcement as well as deviances through time or among individuals;

and the relationships among actors, institution, and boarder environment. In brief, institutional theory ‘focuses on the deeper and more resilient aspects of socials structure. It considers the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behaviours. Different components of institutional theory explain how these elements are created, diffused, adopted and adapted over space and time; and how they fall into decline and disuse.’

## ***2.6 The ‘Institutional Theory Framework’ by Scapens, et al. in Management Accounting Studies***

In Scapens (1994)’s ‘Never Mind the Gap: Towards an Institutional Perspective on Management Accounting Practice’, he argued that the ‘overemphasis on the theoretical ideals could lead to a failure to study closely the practice of management accounting’, and he suggested that management accounting researchers should ‘look seriously at the nature of all management accounting practices, and not to dismiss those practices which do not conform to some theoretical idea’. Although at the time criticisms towards management accounting studies based on the neoclassical approach existed, and institutionalism was ‘experiencing a renaissance in the social sciences’, it’s noticed by Scapens (1994) that those various approaches lack ‘a common set of assumptions’.

Hodgson and Screpanti (1991) rejected the orthodox economists' definition by emphasizing 'a particular method of economic analysis', criticized the 'tradition of atomistic modeling', and redefined 'economics' as 'the study of the processes and social relations governing production, distribution and exchange of wealth and income', which 'explicitly brings social dimensions into the field of economics' and 'opens up the possibility of studying the social institutions which underpin economic behaviour' (quoted in Scapens, 1994). Based on Hodgson and Screpanti (1991)'s redefinition of 'economics', Scapens (1994) tried to use the institutional economic and revolutionary economic framework (especially the old institutional economic framework which 'developed in opposition to neoclassical analysis') for management accounting studies. It not only 'remains an economic approach', but also 'seeks to introduce into the analysis such social, political and cultural dimensions'. As Scapens (1994) said, 'such an approach' is not to 'provide an (empirically) general theory of accounting behaviour or a comprehensive theory from which we can derive accounting models or hypotheses about accounting practice', but rather to have the 'potential to provide a useful starting point for case studies designed to give us better understandings of management accounting practice'.

By using Hamilton (1932)'s definition of 'institution', Scapens (1994) discussed the relationship of the 'behaviour of individual actors' and the 'formation of institutions', distinguished between 'evolutionary (routine) change' from 'revolutionary (critical) change', theoretically explored 'the extent to which accounting provides the institutional basis for decision-making and structures the formation of expectations and beliefs; that is, the extent to which accounting practices give social coherence and meaning to organizational behaviour and allow individuals and groups within

firms to give meaning to their day-to-day activities’, and concluded that accounting practices can be viewed ‘at least a part of, the routine which enable organizations to reproduce behaviour and achieve organizational cohesion. Accounting practices are routines which involve doing things (periodic planning behaviour), choosing what to do (evaluation of alternatives, such as pricing and resource allocations) and monitoring what has been done (performance reporting). If accounting is institutionalized it is through such routines that behaviours are predictable and understandable despite organizational complexity and uncertainty.’

Although the study of Scapens (1994) limited itself to ‘an overview of institutional economics and a discussion of its implications for studying management accounting practice’, it pointed out that ‘there are a number of similarities and overlaps between institutional economics and institutionalism in organization theory and sociology (DiMaggio and Powell, 1991). Hodgson (1989, 1998) reviewed the works on the old and new institutional economics. He (Hodgson 1988) described the institutional economics developed by Veblen (1899), Commons (1924) and other institutional writers, and discussed rational optimizing in the face of ‘complexity’, ‘uncertainty’ and ‘information cost’. Despite accounting’s function as maintaining organizational coherence, Scapens (1994) also regarded it as another role of giving external legitimacy. Moreover, although Scapens (1994) noticed the gap between accounting theories and practices, it suggested that this is not ‘surprising, nor worrying’, and textbook techniques and procedures as ‘part of the professional education of accountants’ will ‘penetrate the organization’. To implement the theoretical exploration, Scapens (1994) explained the differences between this ‘micro-studies of the production and reproduction of accounting practices’ and institutional research in general.

Continuing to Scapens (1994)'s theoretical exploration about the 'potential' of an 'institutional framework for the study of management accounting practices', Burns and Scapens (2000) described the institutional theory framework used in management accounting studies which is majorly based on old institutional economics. By using Ferac Plastics (the case study can also be referred to Roberts and Scapens, 1990; Scapens and Burns, 1996) and Omega plc. (the case study can also be referred to Scapens and Roberts, 1993) as empirical examples, Burns and Scapens (2000) explained why changes have or have not happened in the specific organizational context, and then 'demonstrated the importance of organizational routines and institutions in shaping the process of management accounting change'. Burns and Scapens (2000) distinguished formal and informal management accounting change (which is similar to the distinction between intentional and unintentional management accounting change), revolutionary and evolutionary management accounting change, regressive and progressive management accounting change in the case studies. For future studies based on this framework, Burns and Scapens (2000) said that, 'it will be only be through actual studies of management accounting change that the potential of the framework for understanding processes will be realized'. They suggested research methods which are 'longitudinal in nature' 'to understand the complex nature of management accounting change' (Burns and Scapens, 2000). More specific content including the key terms and the relationships among these key terms of the framework is going to be explained in details in the following paragraphs.

Firstly, institution(s): Scapens et al. quoted the definition commonly used in OIE, which is, 'a way of thought or action of some prevalence and permanence, which is embedded in the habits

of a group or the customs of a people' (Hamilton, 1932, quoted in Scapens, 1994; Burns and Scapens, 2000). 'This definition brings out the social and cultural character of an institution and emphasizes the importance of habitual behaviour' (Scapens, 1994). Then, 'there is a duality between action (human activity) and the institutions which structure that activity'. On the one hand, 'institutions can be regarded as imposing form and social coherence upon human activity, through the production and reproduction of settled habits of thought and action', on the other hand, 'institutions themselves evolve through a process of routinization of human activity' (Burns and Scapens, 2000). Moreover, the agency-structure discussion in social sciences (e.g. Bhaskar, 1975; Giddens, 1984; Archer, 1995, quoted in Burns and Scapens, 2000) concerns the relationships between actions and institutions. Burns and Scapens (2000) regards Hamilton (1932)'s definition to contain both 'system' and 'structure' based on Giddens (1984)'s definitions. To also 'analyze the relationship between actions and institutions', Burns and Scapens (2000) modified Barley and Tolbert (1997)'s definition and termed 'an institution' as 'the shared taken-for granted assumptions which identify categories of human actors and their appropriated activities and relationships'. On the one hand, 'institutions comprise the taken-for-granted (or this is the way things are) assumptions which inform and shape the actions of individual actors', on the other hand, 'these taken-for-granted assumptions are themselves the outcome of social actions'. Furthermore, 'institutions always exist prior to any attempt by the actors to introduce change, and will therefore shape the processes of change (see Bhaskar, 1989, quoted by Burns and Scapens, 2000). However, in turn, these processes of change may result in new routines which over time could become institutionalized. Thus, in studying specific intentional change it is important to examine the existing institutions' (Burns and Scapens, 2000).

The 'institutional realm and the realm of action' are 'ongoing and in a cumulative process of change' (Burns and Scapens, 2000).

Secondly, habit(s): Scapens et al. used Hodgson (1993)'s definition as 'more or less self-actualizing dispositions or tendencies to engage in previously adopted or acquired forms of action', which doesn't 'deny the intentionality of individual behaviour' (Waller, 1988; Giddens, 1976, 1984, quoted in Scapens, 1994).

Thirdly, rule(s): it is defined as 'the formally recognized way in which "things should be done"' (Burns and Scapens, 2000). Rules are 'necessary to co-ordinate and give coherence to the actions of groups of individuals', and rule-based behaviour 'does not deny that people have reasons for doing things (Scapens, 1994). Not only 'although individual actors may not consistently pursue rational choices, their actions are guided by their intentions, but they can also have unanticipated consequences', but also 'the relationship between past actions and current rule-based behaviour' are 'complex and socially constructed' (Scapens, 1994). In other words, 'rule-based behaviour may result from an explicit assessment of the available alternatives, and the selected rules followed thereafter in order to avoid the difficulties and costs of undertaking such assessments on every occasion' (Burns and Scapens, 2000). Heiner (1983, quoted in Scapens 1994) argued that 'the greater the level of uncertainty, the more likely decision-makers are to adopt rule-based behaviour'. More specifically, in the context of management accounting, rules 'comprise the formal management accounting systems, as they are set out in the procedure manuals' (Burns

and Scapens, 2000). Furthermore, ‘by repeatedly following rules, behaviour may become programmatic and based increasingly on tacit knowledge, which the individual acquires through reflexive monitoring of day-to-day behaviour. Such programmatic rule-based behaviours could be described as routines – as they represent the habits of the group’ (Burns and Scapens, 2000).

Fourthly, routines: it can be defined as ‘the way in which “things are actually done”’ (Burns and Scapens, 2000). Also, ‘in the process of routinization, previously formulated rules may become modified as the group locates mutually acceptable ways of implementing them’ (Burns and Scapens, 2000). In other words, ‘routines grounded in practically acquired tacit knowledge permit actions amid such complexity and uncertainty as behaviour becomes “automatic”’ (Nelson and Winter, 1982, quoted in Scapens, 1994). More specifically, in the context of management accounting, routines ‘are the accounting practices actually in use’ (Burns and Scapens, 2000). They ‘need not be highly formalized organizational procedures. They could include heuristics (or rules-of-thumb) which managers habitually use in particular situation. The use of such routines may represent explicit choices, either at the present or in the past, but they are most likely to be located at the level of practical consciousness and grounded in tacit knowledge’ (Scapens, 1994). For the relationship between rules and routines, it is said that ‘management accounting practices in use may not actually replicate the systems set out in the procedure manuals (see Roberts and Scapens, 1985)’ (Burns and Scapens, 2000).



Fifth, resistance to change: while the ‘change processes in the institutional realm occur over longer periods of time than change in the realm of action’, ‘rules and routines are also in a cumulative process of change’. However, ‘the enactment of rules and routines may be subject to resistance, especially if the rules and routines challenge existing meanings and values, and actors have sufficient resources of power to intervene in this process’ (Burns and Scapens, 2000). Burns and Scapens (2000) divided ‘resistance to change’ into ‘three separate but interrelated elements’ including ‘formal and overt resistance due to competing interests’; ‘resistance due to a lack of capability (knowledge and experience) to cope with such change’; and ‘resistance due to a “mental allegiance” to established ways of thinking and doing, embodied in existing routines and institutions’.

Sixth, formal vs. informal management accounting change: according to Scapens et al.’s framework, formal change ‘occurs by conscious design, usually through the introduction of new rules and/ or through the actions of a powerful individual or group (see Rutherford, 1994, quoted in Burns and Scapens, 2000), while informal change’ occurs at a more tacit level; for example, as new routines adapt over time to changing operating conditions’. For the relationships between the two, ‘the successful implementation of a formal change may require new ways of thinking which is the essence of informal change’; ‘if the processes of informal change lag behind the formal change processes, tensions may be introduced in the form of anxiety and resistance, possibly leading to the failure of the implementation’ (Burns and Scapens, 2000). Moreover, Burns and Scapens (2000) introduced a similar distinction between the intentional/unintentional distinction ‘focuses attention on: (1) change which flows from the introduction of new rules; and

(2) change which evolves at a more tacit subconscious level' and claimed that 'most processes of management accounting change are likely to incorporate a mixture of both'. In the context of management accounting change more specifically, Burns and Scapens (2000) suggested to 'explore changes in other aspects of organizational activity, such as ownership structure or production technology, and then to examine the impact on management accounting practices' for the studying of informal changing processes and unintentional change. They also argued that 'at the more practical level, it seems reasonable to expect that top-down (i.e. imposed) management accounting change will have its initial and most direct impact on the formal rules (i.e. the technical aspects) of management accounting systems, but only an indirect impact on the informal processes which underpin management accounting routines. Whereas, bottom-up change (initiated by organizational members who use management accounting from one day to the next) is more likely to have an impact at a tacit level and to shape informal as well as formal management accounting processes' (Burns and Scapens, 2000).

Seventh, evolution and evolutionary (routine) change vs. revolution and revolutionary (critical) change: 'rules and routines provide an organizational memory and are the basis for the evolution of organizational behaviour. They are the organizational equivalent of genes in biological processes', 'in this sense evolution is not the creation of optimal behaviour, but merely the reproduction (and possible adaptation) of behaviours through time' (Scapens, 1994). In the context of organizational change, 'evolutionary change is incremental with only minor disruption to existing routines and institutions' which 'involves evolutionary adaption through, for instance, replication, contraction and imitation'. While 'revolutionary change involves a fundamental/

significant disruption of existing/ established routines and institutions’, the term revolutionary ‘is not related to the particular content of the change (i.e. the particular techniques, systems, etc.) being introduced, but rather to its potential impact on existing institutions’ (Scapens, 1994; Burns and Scapens, 2000). Both similarities and differences exist between the two. ‘For example, intentional changes in management accounting systems may remain firmly grounded in existing routines and institutions, and as such would not be revolutionary. Also, unintentional change in informal processes could, in principle at least, be revolutionary, in that they could challenge existing institutions’ (Burns and Scapens, 2000).

Eighth, regressive vs. progressive management accounting change: according to Tool (1993, quoted in Burns and Scapens, 2000), ceremonial behaviour which ‘emerged from a value system which discriminates between human beings and preserves existing power structures’ is distinguished from instrumental behaviour which ‘emerges from a value system which applies the best available knowledge and technology to problems and seeks to enhance relationships’. Then, regressive change is used to ‘describe behaviour which reinforces ceremonial dominance, thereby restricting institutional change’, while progressive change is used to ‘describe the displacement of ceremonial behaviour by instrumental behaviour’. ‘Such progressive change can take place, even where there is ceremonial dominance, because new technology can incite questioning of previously dominant, ceremonial values’.

Ninth, intra-organizational conflict and 'truce': Scapens (1994) argued that, 'for routines to accomplish something productive, highly specific conditions must be satisfied, and these will be different in each particular case. Central to productive organizational performance is coordination, and central to coordination is that individual members, knowing their jobs, correctly interpret and respond to the messages they receive'. 'In operation, routines require each member of the organization to be "content" to play their individual roles in the organizational routine. This involves overcoming intra-organizational conflict'. According to Nelson and Winter (1982, quoted in Scapens, 1994), 'conflict, both manifest and latent, persists, but manifest conflict follows largely predictable paths and stays within the bounds that are consistent with the ongoing routine. In short, routine operation involves a comprehensive truce in interorganizational conflict'. Also, 'truce is itself a powerful force in the evolution of the organization' and 'tends to give rise to a particular symbolic culture shared by parties ... [and] the fear of breaking the truce is, in general, a powerful force tending to hold organizations on the path of relatively inflexible routine'. 'Thus, routines provide for both the reproduction of behaviour and the cohesion of the organization', although 'changes do take place'. Also according to Scapens (1994), revolutionary change happens when 'some major crisis disrupts the truce and makes it necessary to establish new meanings through which to make sense of organizational activity. As existing institutions are challenged, purposive action and conscious choice are more likely because new routines have to be established and new truce negotiated. Furthermore, even gradual evolutionary change can eventually put such strains on the organization as to create such a crisis.'

Tenth, Power: Burns and Scapens (2000) argued that ‘in studying the ways in which management accounting change can influence organizational behaviour, it is important to recognize the role of power in processes of change’. ‘[A]t one level, explicit power (e.g. hierarchical power, or the power of a strong individual personality) can be used to introduce new organizational rules (such as management accounting systems). Furthermore, power located elsewhere in the organization may be mobilized to resist such new organizational rules. At a second level, a more subtle use of power may occur through the ceremonial use of organizational (including management accounting) routines which favour particular interest groups. Finally, at a third level, there is the power embedded in the institutionalized routines, which shape the actions and thoughts of members of the organization, thereby creating organizational stability and also encapsulating organizational know-how.’ ‘In terms of the process of institutionalization’, ‘power at the first level can be seen in the enacting of rules and routines, when certain powerful members of the organization use their control over key resources to introduce new management accounting systems. Power at the second level can be present in the (re-) enacting and reproduction of rules and routines, where for example management accounting practices serve a ceremonial role which preserves vested interests and restricts instrumental change. Finally, the third level of power is entailed in the institutionalization and encoding of rules and routines and their subsequent (re-) enactment as the unquestioned ways of thinking and doing’.

Eleventh, environment: the impact of environment on management accounting change not only includes the influences of the ‘complex and uncertain world’ on individual ‘choices’ but also affects organizational routines. Scapens (1994) gave the example that a firm in the industry with

rapid technological change needs to develop routines to cope with changes. Burns and Scapens (2000) pointed out that, the ‘enactment of rules and routines may be subject to resistance, especially if the rules and routines challenge existing meanings and values, and actors have sufficient resources of power to intervene in this process. However, in the absence of “external” changes, such as advances in technology, or a take-over crisis, there is unlikely to be a reopening of previously agreed arrangements and therefore routines may become somewhat resistant to change. Nevertheless, change can take place’. Although Scapens et al.’s framework mainly focused on the intra-organizational change based on the OIEs, they pointed out the ‘new’ institutional sociology research in accounting which ‘predominately focuses on the effects of extra-organizational institutions (social, economic and political) on the accounting practices of organizations more generally (e.g. Covalleski et al., 1993, 1996; Carruthers, 1995; Fligstein, 1998, referred to in Burns and Scapens, 2000). They also recognize the management accounting studies focusing on the ‘legitimization’ of the new system to the environment and the organization itself. But still, for Scapens et al.’s framework, it has been reinforced that the ‘institutions’ exist as ideas, and the framework is not used for ‘measuring’ but for ‘observing’ and explaining the process. Although ‘prediction of the outcome of planned change is likely to be much more difficult’ ‘this does not mean that the approach has little value in managing change’ (Burns and Scapens, 2000). ‘An awareness of the issues raised by an institutional approach, and in particular a recognition of the potential conflicts which may arise, will enable those involved in processes of change to be sensitive to the problems and difficulties which can arise’ (Burns and Scapens, 2000).

Twelfth, institutionalization: while ‘management accounting is conceived as a routine, and potentially institutionalized, organizational practice’, and ‘by institutionalized’, it means that ‘management accounting can, over time, come to underpin the “taken-for-granted” ways of thinking and doing in a particular organization’ (see Mouritsen, 1994, quoted in Burns and Scapens, 2000). The ‘institutionalization of rules and routines which have been reproduced through the behaviour of the individual actors’ ‘involves a disassociation of the patterns of behaviour from their particular historical circumstances, so that the rules and routines take on a normative and factual quality, which obscures their relationship with the interests of the different actors. In other words, the rules and routines become simply the way things are, i. e., institutions. These institutions will then be encoded into the ongoing rules and routines and will shape new rules, and so on. In this way, the routines themselves can be institutionalized. In other words, they become the taken-for-granted way of behaving; disassociated for their particular historical circumstances. They become the taken-for-granted assumption that these routines represent the appropriate behaviour for the particular social group, and the routines themselves are the local instantiation of the institution. The more widely and deeply the institution is accepted, the more likely it is to influence action and to resist change. As such, institutions are the structural properties which comprise the taken-for-granted assumptions about the way of doing things, which shape and constrain the rules and routines, and determine the meanings, values, and also powers of the individual actors. As they are disassociated from the particular historical circumstances, they exist only in the understandings and stocks of knowledge of the individuals and groups. They are more abstract than rules and routines, and they bind time by shaping actions period-by-period. Furthermore, encoding and institutionalization are ongoing processes, rather than distinct identifiable movements’ (Burns and Scapens, 2000).

Thirteenth, accounting practice as institutionalized routines: it is based on the construction of previous terms and the relationships among them. Scapens et al. suggest understanding accounting practices as institutionalized routines as the 'starting point for management accounting research'. They adopt the institutional economists' view of economic activity as 'a social phenomenon' having 'relationship with social institutional', economic system as 'a sub-system of the larger societal or cultural system', human beings as cultural products which are influenced by and function in an evolving cultural process. They consider knowledge as 'subjective' and the acquisition of knowledge as a 'social act' since 'the content, or objective, of individual self interest are themselves socially constructed'. Thus, according to them institutions 'shape the cognitive processes of individual actors' (Scapens, 1994). More specifically, according to the framework, 'management accounting change has been conceptualized as change in organizational rules and routines. Management Accounting systems and practices constitute organizational rules and routines, and in order to understand complex processes of management accounting change their institutional character has to be recognized. It has not been argued that management accounting is institutionalized in all organizations, but rather it has the potential to become institutionalized and thereby to contribute to the relative stability (however transitory) of organizational processes, and to act as a carrier of organizational know-how. As organizational rules and routines, management accounting systems and practices stand between the structuring properties of institutions and the day-to-day actions and thoughts of organizational members. As such, management accounting change is a complex process, both conceptually and practically' (Burns and Scapens, 2000).



Since accounting practices which become institutionalized routines 'may not always be readily achieved' (Scapens 1994, using Scapens and Robert, 1993; Berry, et al., 1985; Humphrey, Miller and Scapens, 1993 as examples), 'it is important to study the relationship between accounting practices and other organizational routines' and 'not to assume that accounting necessarily has the central role in organizational routine' but only to regard it as one of them in modern organizations (Scapens,1994). Although the institutional theory framework for management accounting studies specifically pointed out the 'gap' between the neo-classical (or so-called orthodoxy) economics' explanation and the management accounting practice, they argued that the 'gap between theory and practice' in general 'should be neither surprising, nor worrying' (Scapens, 1994). Not only 'textbook techniques and procedures may have instrumental value for the firm and textbooks may give legitimacy to particular practices', but also as 'part of the professional education of accountants, textbook techniques and procedures will penetrate the organization' and thus 'may have an impact on management accounting practice' (Scapens, 1994). It needed to be looked into by connecting with the specific context or the organization.

Burns (2000) conducted a case study exploring the issue of power in management accounting change, using both the institutional framework of accounting and a framework of power mobilization. It 'demonstrates barriers to change and conflict which emerge as new accounting routines fail to impinge on existing laboratory ways of thinking' (Burns, 2000). He not only discusses the 'change over time' as well as the 'continuity of settled patterns of behaviour' concerning the 'intra-organizational level' but also discusses 'how extra-organizational events are crucial for catalyzing the processes of accounting change'. Based on the case study of BUTT

– a ‘UK-based manufacturing arm of a global network within the pharmaceuticals industry’, Burns and Baldvinsdottir (2005) discussed ‘the praxis that underpin when, how and why role(s) change is carved out’, and contributed to an interpretation using institutional theory to explain the ‘dynamics of role(s) change in actual organizations’.

Viavio (1999)’s work also used the institutionalist theories for management accounting change. Ahmed and Scapens (2000) suggested that an institutional economics framework may better explain actual management accounting practice than neoclassical one. They applied the institutional economics approach to explain apparently irrational costing and pricing procedures. Siti-Nabiha and Scapens (2005) recognized the importance of the processual/ contextualist perspective of Pettigrew and McNulty (1995) and Dawson (2003)’. In explaining change, they used the framework set out in Burns and Scapens (2000) employed OIE to focus the analysis on ‘change processes within the organization’ by answering the questions of ‘why is there resistance to change, what forces are at work, and how do new systems become embedded in the organization’, and other theoretical works based on NIS (Covaleski and Dirsmith, 1983; Ansari and Euske, 1987; Mezas, 1990; Covaleski et al., 1993; Carruthers, 1995; Scott, 2001; Meyer and Rowan, 1977; Powell, 1991; Perrow, 1985, 1986; Collier, 2001; Johnsen, 1999; Modell, 2001; Oliver, 1991; Brignall and Modell, 2000, quoted in Siti-Babiha and Scapens, 2005) to help to explain issues concerning external institutions including ‘legitimation’ and ‘decoupling’.

Scapens' et al.'s Institutional Theory Framework of Management Accounting studies are not only concerned with the old economic institutional theories but also adopt an interpretive approach to view the relationship between the world and people's understanding of it. As this current chapter focuses on reviewing major management accounting works adopting this approach, the following chapter of methodology will discuss again these works, but from a perspective of epistemology and ontology.

As Scapens (1994) stated, there are other studies (Covaleski, Dirsmith and Michelmans, 1993; Hogler and Hunt, 1993; Mezias, 1994) exploring 'accounting practice using the institutional perspective adopted in organization theory'. Besides, there are management accounting studies based on other perspectives of institutional theories rather than OIE. For example, Cruz, Major and Scapens (2009) used 'neo-institutional work in accounting' (i.e., Lounsbury, 2008; Scott, 2001; Burns et al., 2006; Scapens, 2006), 'the notion of multiple logics (Lounsbury, 2008)', and 'Orton and Weick (1990)'s perspective on loose coupling' to focus in explaining why the managers of a 'joint venture (JV) set up by a Portuguese company' 'introduced variations in the management control (MC) rules and procedures in institutionalizing the global MC system imposed by' 'a global corporation (GC) in the hospitality sector'. Different from 'what has more conventionally been suggested by neoinstitutional theorists and accounting researchers who have drawn on institutional theory (i.e., Seo and Creed, 2002; Lounsbury, 2008; Dillard et al., 2004; Hopper and Major, 2007, quoted in Cruz, et al., 2009), it is found that 'where organizational environments (fields) comprise multiple logics, local actors may introduce practice variations; but these variations do not necessarily result from conflicting institutional and technical logics;

the exercise of agency in the dependent organizations can shape practice variations, even where institutional and technical pressures coincide' (Cruz, Major and Scapens, 2009). These findings, as well as the distinction between loose coupling and decoupling sharpened by Cruz, et al, (2009) will be further used in the data analysis and discussion chapters of this thesis.

Hechter (2008) can serve as another example in the domain. Although it does not directly refer to the institutional theories, based on a discussion about 'norms' (which can be 'institutive', 'instrumental', 'conscious', or 'unconscious', 'taken-for-granted', or even 'ambiguous', 'conflicting') mentioning 'multiple interpretations' (also refers to Hechter and Opp, quoted in Hechter, 2008), and the case study of 'the rise and fall of the Arthur Andersen accounting firm', Hechter (2008) suggests that 'normative control, which is always problematic, is especially so when agents are subject to the control of two or more principals having divergent interests', and 'the agent's compliance will tend to flow to that principal upon whom the agent is most dependent' .

In brief, as Scapens (1994) reviewed, early institutionalists (including Veblen, Commons and Ayres), noticed the 'narrowness of the profit maximizing assumption used in mainstream economics' (Langlois, 1986a, quoted in Scapens, 1994), and 'saw economics as a process of social provisioning, subject to multiple and cumulative causation, rather than a series of static equilibrium. To them human beings are a cultural product and accordingly economics needs anthropological and evolutionary dimensions' (Scapens, 1994). 'A major criticism of their work

was that, although their methodology provided a basis for descriptive analyses of economic processes, it lacked a coherent theoretical framework (Myrdal, 1958; Hodgson, 1989, quoted in Scapens, 1994) which ‘linked both decision-making and organizational behaviour to wider economic activities’ (Scapens, 1994). Thus, the recent ‘resurgence of interest in institutional economics’ couples ‘the early institutional economists’ with ‘the work of evolutionary economics (such as Nelson and Winter, 1982) and grounded in behavioural economics, especially the work of Herbert Simon, it provides a stronger theoretical foundation for institutional analysis’ (Scapens, 1994). As Simon (1957) argued, individuals must ‘satisfice, because they have not the wits to maximize’. Moreover, ‘in a complex and uncertain world, it is impossible for an individual to undertake the “choices” which are assumed in rational economic models (Simon, 1957; Vanberg, 1988, quoted in Scapens, 1994). ‘There is uncertainty concerning the range of alternatives which are available, there is also the practical problem of evaluating all the alternatives in the time available, and there is the conceptual problem of specifying means-ends relationship’ (see Langlois, 1986b, quoted in Scapens, 1994).

Examples of empirical studies in management accounting studies using the institutionalism theories have been provided in this chapter. Scapens et al.’s institutional theory framework for management accounting study especially uses the notion of ‘institutions’ to construct management accounting stability and change, by seeing ‘decision-making practices within firms in terms of habits, routines and rule-based behaviour’ (Scapens, 1994). Moreover, empirical management accounting studies which use institutionalism theories also frequently include the use and discussion of interpretive case study method (refers to chapter 3 of the current study).

The ‘thick’ (longitudinal) case study is regarded to be suitable to understand the process of management accounting change in the complex organizational context of change and uncertainty. Considering China’s unique context, both institutional approaches help to understand the reality from institution’s own changes and characters’ own interpretations. And the ‘thick’ case study method, which the institutional approach in management accounting prefers to use, suits this research project’s reality and research design. Findings (refers to chapter 6 of this thesis) show that this approach to study management accounting change can still play an important role in the context of budgetary changes in electronic household appliances industry.

In spite of the conventional neo-classical approach and contingency theory approach in management accounting and the institutional theory approach in management accounting, there are other works adopting a critical management accounting approach. As this approach is not of profound importance for this study at this stage, this current section will only provide an example of Foucaultian approach in management accounting. This enables the reader to have a broader perspective to examine budgetary changes in Chinese companies such as companies’ use of budgetary system and other management accounting systems and techniques for the purpose of ‘normalization’, and conflicts caused by the difference between Chinese reality and Western ‘convention’.

Foucault relates power with knowledge, and suggested ‘the “Enlightenment”, which discovered the liberties, also invented the disciplines’ (Foucault, 1979). In the management accounting area,

his work is used to illuminate or redefine the functions of accounting and thus can be used to explain changes. As for the function of accounting, Rose (1991) treated numbers not only as quantitative data alone, but also as ‘an unmistakable power in modern political culture’. From this point of view, accounting and other various calculations form the basis for democratic politics. Covalleski, et al. (1996) said that, ‘in the Foucaultian approach, management accounting is considered as part of a larger historical trend through which people at large were subjected to a variety of disciplinary techniques’ The ‘Foucaultian tradition reveals management accounting as an element of a general historical process by which people are made calculable and governable’, and ‘the Foucaultian view also considers management accounting as a social practice rather than a technique by examining the intricate and richness in such social relations that are embedded in social patterns of interaction as language, discipline and intimacy, all cultural norms and forces which potentially impinge on the roles and nature of management accounting.’

Laughlin et al.’s framework of middle range thinking recognized the difficulty this research project encountered. No single management accounting (budgetary) theory is sufficient in accessing and explaining this study’s research reality in China, as ‘all empirical research is partial’. Also, it provides a framework in situating theory, methodology, and change. Although Laughlin (1995)’s framework does not provide details about what is the ‘best’ management accounting (budgetary) theory to satisfy all these criteria, it does point out the philosophical, ontological, and epistemological position which benefit this research project. Covalleski et al. (2003)’s work then propose in detail the method of integrating different theories together in the field of budgeting that this thesis can adopt.

## ***2.7 Using Covaleski et al.'s Framework (2003) to Review Recent Literature about Budgetary System Changes***

While Laughlin et al.'s studies towards 'Middle Range Thinking' thinking reckoned the partiality of empirical research or a certain group of management accounting theories, the study of Covaleski, and et al. in 2003 reviewed budgetary theories' common historical background of development, and details of budgetary theories categorized in three different theoretical perspectives of economics, psychology, and sociology.

According to Covaleski et al.(2003), economics-based budgeting research emphasizes the cost and benefit (value) of budgeting practices towards owners and managers, and 'the agency' is the focus since 'budgets influence managers' and other employees' personal trade-offs between labor and leisure as well as their allocation of total effort across different tasks'. Psychology perspective budgeting research 'focuses on how individuals' mental states are both influenced by stimuli and influence their behaviour (e.g., communicating, effort, gaming) and performance', based on assumptions of bounded rationality and satisficing. Sociological perspectives in budgeting research are concerned with budgeting issues within and across organizations, and 'addresses the tension in aligning individuals' goals and behaviours with organizational goals and objectives as well as the role of individuals in shaping organizational goals and objectives, through the budgeting processes. Covaleski et al. (2003) provided details of a/the primary research question, level of analysis, assumptions, budgeting and nonbudgeting variables, and causal-model forms of all three perspectives of budgeting together with empirical examples.



Based on these, Covaleski et al. (2003) further pointed out that ‘budgeting offers opportunities for research that chooses between competing theories from these perspectives or combines theories from different perspectives if they are compatible, to create more complete and valid explanations of the causes and effects of budgeting practices’. They then identified ‘four important interrelated criteria to employ in designing and evaluating research that integrates selected cause-and-effect explanations from different theoretical perspectives’: ‘(1) Are variable names and meanings consistent across theoretical perspectives? (2) Are the explanations of causal process underlying models from different theoretical perspectives consistent with each other? (3) Is research from different theoretical perspectives at the same level of analysis? (4) What constraints on causal-model forms are implied by the theoretical perspectives used in integrative research?’

Hence, Covaleski et al. (2003) helps to solve the major research difficulty this research encountered. The researcher realizes that no single budgetary theory is able to sufficiently explain this research project in a new research context – electronic household appliances industry in China. Covaleski et al. (2003) provides theoretical support and criteria of ‘selective integration’ of different budgetary theories within or across different perspectives. Nevertheless, using Covaleski et al. (2003)’s study for this thesis does not mean to underestimate the power of applying a single theory. Instead, it only provides the strength of using multiple theories to suit the dynamic, different, and complicated research reality. Based on Covaleski et al. (2003)’s framework and the possibility of using different Western theory or theories of change in

management accounting in the context of budgeting in Chinese companies, the following sections of this thesis will introduce Western budgetary studies relevant with this project.

## **2.8 Budgeting**

Although ‘budgeting’ has developed as a mile stone in the area of management accounting, there has no globally recognized definition. Powell (1980) defined budgeting as ‘a written financial plan covering a future period of specific duration (monthly, quarterly, annually, and multi-year).’ Anthony and Govindarajan (2004) specify that ‘an operating budget’ ‘usually covers one year and states the revenues and expense planned for that year’. Its characteristics include that it ‘estimates the profit potential of the business unit’, ‘is stated in monetary terms, although the monetary amounts may be backed up by nonmonetary amounts’, ‘generally covers a period of one year’ and ‘is a management commitment’. The ‘budget proposal is reviewed and approved by an authority higher than the budgetee’. Once ‘approved, the budget can be changed only under specific conditions’, and ‘periodically, actual financial performance is compared to budget, and variances are analyzed and explained’. Hofstede (1968) related the definition of budgets as ‘a management tool to facilitate the management task of leading the business towards its goals’, ‘primarily intended to achieve the following results. They are considered as goals or as constraint for business.

1. Higher profitability by coordinating efforts, avoiding waste and improving management decisions.
2. Optimal liquidity and the best way of financing the business because of advance knowledge

of cash needs.’

The functions/ roles of budgeting are intimately connected with its definition. Simon et al. (1954) suggested that accounting information serves three functions: ‘attention directing’, ‘problem solving’ and ‘scorecard keeping’. Otley (1994) maintained that ‘a budgetary-control system serves’ the first function ‘by setting budgetary standards, collecting actual cost and revenue information and reporting accounting variances on a routine and regular basis’; serves the second function more ‘one-off rather than regular’ with ad hoc analysis aiming at ‘predicting what the future costs and benefits are likely to be’; and serves the third function (also called ‘performance-evaluation function’) focusing on ‘the overall performance of a manager, or of the unit under his command, relative to the objectives and targets that have been set’. Hofstede (1968) translated Mey (1951, following Limperg, 1965)’s opinions on four basic functions of a budget, and concluded that they are ‘Authorizing’, ‘Forecasting’, ‘Planning’ and ‘Measuring’. Otley (1977) developed these four into authorization, forecasting and planning, communication and co-ordination, motivation, and education. Later development of the literature of budgeting has added new elements to the description of its functions, but no fundamental change has been brought in. In a more recent edition by Anthony and Govindarajan (2004), principal purposes of preparing operating budget include: ‘(1) to fine-tune the strategic plan; (2) to help coordinate the activities of several parts of the organization; (3) to assign responsibility to managers, to authorize the amounts they are permitted to spend, and to inform them of the performance that is expected of them; and (4) to obtain a commitment that is a basis for evaluating a manager’s actual performance.’

Therefore, after decades of development of budgetary theories and practices, although the exact description could never be unified, people have the unanimous opinion about the functions of budgeting. And it is based on these commonly recognized functions of budget(ing), and people have derived various discussions and contentions, trials and experiments of budget(ing).

Furthermore, to clarify the confusion of 'plan(ning)' and 'forecast(ing)', Hofstede (1968) used the Oxford Dictionary to explain which might be the clearest way we can find here. That is, 'to forecast = to estimate beforehand; to plan = to arrange beforehand'. Later, Otley (1977) claimed that in practice, both these two may be more likely to serve as 'reducing uncertainty'. Anthony and Govindarajan (2004) compared budget with forecast and strategic planning, and indicated the differences. However, this comparison among them does not conflict with the planning/forecasting functions within budget itself. Moreover, in practice, it is often basically the same set of information within an organization to serve different purposes of the organization, and to satisfy different functions of budgetary control. This may bring problems to the users (in our study, especially managers). Annual budget reports of subsidiaries can be enough for the board members of the company to review or predict annual fiscal performance of the company, while they are far less than sufficient for general managers of subsidiaries to supervise operational practice. On the contrary, detailed information of every employee is necessary for divisional managers who directly involved in producing process, while giving too much detailed information to general managers may waste their time and energy, and hence have negative influences in their managerial decisions.

Thus, on the one hand, we should pay attention to the limitation of this one-end-towards-multiple-facets feature of budgetary system, and giving its users a certain degree of freedom to flexibly utilize the system. For example, in spite of compulsory annual budgets of the subsidiary, general managers can require short-term budgets from their junior managers according to practical needs of management. On the other hand, it is the system designers and users' tasks to select more relevant data from different perspectives, to implement and protect the system, and thus to benefit organizational effectiveness.

Budgets can exist in a range of forms from the most simple personal input and output diary to a huge computerized system designed by experts. According to Powell (1980), for formal organizational budgets, we normally can classify them into 'the period, or operating, budget' and 'the project, or capital, budget' by their content. Only the operating budget is within the scope of discussion in this thesis. Powell (1980) also suggested that 'some administrators use a three-way classification' based on the period of time, which includes 1. The annual operating budget, considering revenues, expenditures and transfers with no changes shown for plant and equipment; 2. A five-year plan (or six- or eight- or possibly even ten-year plan), reflecting intermediate-time-period changes in plant and equipment accounts, whose changes reflect completion of major capital-addition projects currently underway; and 3. a long-range plan, encompassing major modifications in revenue-raising approaches and other program changes of a strategic nature.' Only the annual operating budget is used by both of the two companies studied in this thesis. Anthony and Govindarajan (2004) explained that this type of operating budget 'states the revenues and expenses planned for that year', which can normally include the following items, both divisional and of the whole organization,

‘- Revenue Budgets,

- Budgetary Production Cost and Cost of Sales,
- Marketing Expenses,
- General and Administrative Expenses,
- Research and Development Expenses, and
- Income Taxes’.

In addition, ‘the complete budget of a company also consists of

- a capital budget,
- a budgeted balance sheet,
- a budgeted cash flow statement, and sometimes also
- a statement of nonfinancial objectives. (Anthony and Govindarajan, 2004)

In practice, companies may require their own content and format of budgets, depending on their actual needs in reality.

The Buttonwood Group, LLP (Jan. 2004) suggested the “five Best Practices” including the Rolling Forecast/ Continuous Planning, Value Planning, Value Based Management/ EVA, Activity Based Budgeting, and Zero Based Budgeting for the improvement of budgetary activity. . Although the lags and slacks in budgeting always exist, technology makes it possible to embed the forecasting and budgeting processes and systems at the operational level and to

become normal management tools. Yet, recent studies relevant with budgeting in a changing organizational context suggest that, a contextual understanding beyond technologies is required.

As Burns (2000) said, before and during the 1990s, ‘the issue of accounting change has been subject to considerable research attention’. ‘The main interest has been directed at exploring change in: accounting systems, accounting techniques, the accountancy profession, and the role of an accountant (for general references to such work, see Chua (1995) and Bhimani (1996), quoted in Burns 2000)’ . Concerning organizational change, Pettigrew (1990, quoted in Burns 2000) accused ‘the main thrust of research on organizational change as being: ‘ahistorical, aprocessual and acontextual in character’, Dawson (1994, quoted in Burns 2000) emphasizes the ‘context’ (historical, cultural) and ‘substance’ (size, type) of change, in addition to the politics of change, as being key drivers.

Concerning studies of management accounting change, as it was previously mentioned in this chapter Burns (2000) reviewed previous management studies concerning power, politics and change (Buchanan and Badham, 1999; Dawson, 1994, 1996; Pettigrew, 1973, 1985, 1990; Pettigrew and McNulty, 1995; Pfeffer, 1981), combined the institutional framework in accounting with the power mobilization concepts developed by Hardy (1996) to explain the process of accounting change. According to the study, ‘power mobilization essentially provides the energy and momentum necessary for implementing accounting change which serves particular vested interests (i. e. politics). But, as seen in the case, power represented in local settled ways of thinking can also work fundamentally against such change’ (Burns, 2000). In

other words, while based on Hardy (1996)'s typology, three dimensions of power including 'the mobilization of power over resources, decision making and meanings', are recognized as facilitating momentums for the change, 'the fourth dimension of power – the existing institutional context – can act as a significant barrier against change. In this respect, institutionalization of new ways of thinking cannot be assumed to be uniform throughout the organization' (Burns, 2000).

Innes and Michell (1990, quoted in Viavio, 1999) categorized forces of change into facilitators, motivators and catalysts. 'Facilitators are conditions conducive to management accounting change which are necessary but not sufficient in themselves for change to occur. Motivators are factors influencing observed changes in a general manner. Finally, a third set of factors directly associated with the timing of change are termed catalysts'. Miller and O'Leary, 1987, 1994 a, b; Miller, 1991, 1994 (quoted in Viavio, 1999) discussed the 'societal, institutional and programmatic origins of management accounting practices, stressing the linkages between "internal" and "external" forces of change'. Bhimani (1993, quoted in Viavio, 1999) argued that 'modifications in management accounting routines are not solely the result of internal, functional requirements, nor are they the product of organizational actors exercising choices. Forms of accounting can emerge as a consequence of extra-organizational influences becoming interlinked with internal circumstances. Management accounting change reveals a lack of calculated design and dynamics of accounting change do not seem to follow an anticipated, unidirectional path of advancement'.



Viavio (1999)'s study traces the mechanism of management accounting change and demonstrates that 'the mechanism of a change process often defies linear patterns. An organization can turn back to past experiments, reinterpret them, and endow them with new meaning'. Siti-Nabiha and Scapens (2005)'s case study about the new system of value-based management (VBM) found out that 'stability and change are not necessarily contradictory or opposing forces, but can be intertwined in an evolutionary process of change'. While 'it is problematic to characterize it as either successful or unsuccessful change', these researchers' study also gave 'important implications for the way in which "success" is defined in studies of accounting change'.

In their institutional theory framework for management accounting studies, Scapens et al view management accounting change as 'change in organizational rules and routines' in general (Burns and Scapens, 2000.) Scapens and Arnold (1986, quoted in Burns and Scapens, 2000) challenged the 'conventional economic-based approach regards management accounting as the provision of information which is designed to enable rational decision makers to make optimal decisions'. Burns and Scapens (2000) view management accounting change as 'an outcome', and argued that the management accounting studies using conventional approach 'may be able to suggest new techniques' but do not 'assist our understanding of how such techniques come to be used in organizations, or the nature of resistance to their use'. According to Scapens et al.'s framework, 'management accounting systems and practices constitute organizational rules and routines, and in order to understand complex processes of management accounting change their institutional character has to be recognized. It has not been argued that management accounting

is institutionalized in all organizations, but rather it has the potential to become institutionalized and thereby to contribute to the relative stability (however transitory) of organizational processes, and to act as a carrier of organizational know-how. As organizational rules and routines, management accounting systems and practices stand between the structuring properties of institutions and the day-to-day actions and thoughts of organizational members. As such, management accounting change is a complex process, both conceptually and practically' (Burns and Scapens, 2000).

According to Hopper and Major (quoted in Cruz, et al., 2009), 'to overcome the limitations of neoinstitutional theory', and 'to incorporate change into the process of institutionalization', Dillard et al. (2004) drew on Weber (1947)'s axes of tension (representation, rationality and power), together with Giddens (1984)'s structuration theory. Dillard et al. (2004) concluded that the institutionalization process allows for continuity, while change can occur when there is friction and conflict in the revision of taken-for-granted norms, values and beliefs. As such, accounting systems can be seen as artifacts incorporating socially imposed rules, regulations, norms and values that provoke responses ranging from resistance to institutionalization'.

Concerning the use of budgetary information, according to Sithambaram (2002), aspects of management control systems that have been examined include: budget use (i.e. Bruns and Waterhouse, 1975); budget evaluation style (i.e. Govindarajan, 1988); budget pressure (i.e. Merchant, 1985), budget tightness (i.e. Simons, 1990), performance appraisal system (i.e. Govindarajan and Gupta, 1985); and scope (extent to which external, non-financial and future-

oriented information is used), timeliness and aggregation attributes (i.e. Chenhall and Morris, 1986; Gul, 1991; Chong and Chong, 1997) .

In management accounting studies concerning budgeting using institutional theories, Siti-Nabiha and Scapens (2005)'s study showed that, 'budgets are routinely used' in the studied company, Eagle, 'as a means of obtaining the resources needed for the planned activities'. 'The procedures set out in the budget guideline are strictly followed, and personnel at most levels are involved in budget preparation. But even though much time and effort are devoted to preparing the budget, they are not used for planning and control, or even as targets.' Even though 'there is a conscious effort on the part of the accountants to improve the budgeting process, but the improvements are largely cosmetic, and appear to be concerned with ensuring a smooth flow of work, from the preparation of the budgets to the "monitoring" of the results – i. e. producing the variance report for Eagle's HQ. Hence, modifications have been made over the years, but the budgets are still used primarily as a tool to obtain resources'. This 'pseudo' budgeting is due to the existing 'institutions' of a production orientation, which 'has permeated the company and has influenced most of its activities', and led the using of budgets in the way that 'ensures the production reliability can be maintained' and 'safety is the priority'. As a consequence, although 'variance reports are prepared to comply with Eagle's procedures, and sent Eagle's HQ', they are not 'discussed in plant management meetings', or 'used to evaluate the performance of managers, divisions or departments'. Hence, 'there is very little financial knowledge and only limited financial control within Eagle'. In other words, 'accounting was seen as an instrument for securing the means of production, rather than a mechanism for achieving financial control'.

Furthermore, their study also showed that, 'even when targets are used, contingencies are taken into consideration and in some cases, "buffers" are included into the targets to allow for uncontrollable factors.' 'In monitoring performance indicators, unplanned activities are taken into account'. 'The managers do not consider KPIs as fully reflective of their performance. As one manager explained, "My performance is based on my KPIs. But my KPIs cannot reflect everything"'. The efforts of modification of the KPIs managed to make it more 'acceptable and 'reduced employee resentment', but it leads to the existence of two sets of systems.

The issue of the effectiveness of the budgetary process, particularly involving accounting performance measures, communication in the budget process (often called budgetary participation), and environmental conditions has been of continuing interest to researchers (Lars Hassel, 1992). However, there are no single criteria for organizational effectiveness that all can agree on (Steers, 1977). Effectiveness of budgetary control is dependent on 1) superior evaluation style (often called budget emphasis or reliance on accounting performance measures), and 2) subordinate budgetary participation when establishing budget targets for performance evaluation.

Argyris (1952) made an important initial contribution to the supervisory style literature. Together with other early studies (Schiff & Lewin, 1968; Lowe & Shaw, 1968; Hofstede, 1968), they provided case evidence relating to this issue. Then, Hopwood (1972, 1973) did the pioneering study of accounting information used in performance evaluation in an American cost-centre organization, did a more formal (statistical) analysis and recognized the ambiguities of

accounting information or budgets to reflect all relevant aspects of managerial performance. Hopwood (1972) was the first researcher to systematically test the direct effects of different styles of using accounting data in performance evaluation. Also, in 1973 he concluded that his results might not generalize to other settings, that is, from an uncertain and highly complex situation to a stable and technologically simple situation. This conclusion made subsequent researchers, beginning with Otley (1978), to adopt a contingency perspective. In Otley's (1978) study in a British profit-centre organization, the definition of supervisory style developed by Hopwood (1972, 1993) was adopted, but Otley (1978) found evidence indicating a continuum of style ranging from BC style to NA style. He also extended the analysis in profit centres whereas Hopwood (1972, 1973) used cost-centre managers.

Following them, Hirst (1981) developed the contingency framework for reliant accounting performant accounting performance measures in different situations, and a subsequent empirical test in a laboratory with students (Hirst, 1983). He argued that the task uncertainty could moderate the effects of budget emphasis. Imoisili (1989) tested a similar contingency framework by using task uncertainty and task interdependence to moderate the relationship between evaluation style and job stress, performance and budget attitudes as criterion variables. None of the interactions between the context and the style was found to be significant, but the budget style was directly associated with job stress and attitudes towards budget in the expected direction, but not with performance measured as superior rating. Although the main effects of an interaction model should be interpreted with caution (Southwood, 1978), the study provides some support for the main findings of Hopwood (1972).

Then, inspired by Otley (1978), Govindarajan (1984) was the first to systematically consider the question whether environmental conditions influence the choice of bases for evaluation. A further examination of the moderating effects of environment on the relationship between evaluation style and job performance was conducted by Brownell (1985). Merchant (1985) and Simons (1987) researched on the antecedent effects of business strategy. Onsi (1973) found that 80% of the 32 managers of the five companies admitted creating slack. His results revealed that budget emphasis and budget pressure (which involved setting tight standards) were positively related to the creation of slack. Budgetary participation was found to independently reduce the slack of supervisory style. Kenis (1979)'s study of 169 department heads in 19 manufacturing plants examined, *inter alia*, the effects of two supervisory styles - general and punitive -; three job related attitudes: satisfaction, involvement and tension; two budget related attitudes: attitudes towards budgets and budgetary motivation; and three performance variables; budgetary performance, cost efficiency and job performance. Merchant's (1981) study of 170 managers of 19 firms in the electronics industry found a strong positive relationship between the budgetary emphasis and the time spent on budgeting (budgetary participation). He also reported that both size (number of employees) and degree of decentralization positively correlated strongly with the budget emphasis. In addition, he found that the budget emphasis was associated with an increase in intrinsic motivation and felt usefulness of the budget. And more recently, Briers and Hirst's paper (1990) review the studies that focus on the use of budgetary information in performance evaluation. Critical analysis of theoretical development and empirical analysis were given. And the authors found out that there is little doubt that the supervisory style is an important predictor of different psychological and behavioural response.

The previous studies listed above focus on the two-way interactive effects of: 1) superior reliance on accounting performance measures and specific environmental characteristics (Hirst, 1981, 1983; Govindarajan, 1984; Brownell, 1985, 1987; Imoisili, 1989); 2) subordinate budgetary communication and environmental characteristics (Brownell, 1985; Govindarajan, 1986; Mia, 1989); and 3) subordinate budgetary participation and reliance on accounting performance measurements (Brownell, 1982; Hirst, 1987; Dunk, 1989). These studies of the accounting performance measures, budgetary participation, and environmental conditions then give us hints of the evaluation of the effectiveness of budgetary process.

About the future role of budgeting as a management accounting device, Siti-Nabiha and Scapens (2005)'s study showed that while 'the budgets were used in a ceremonial way' and 'the accountants had a very traditional bookkeeping role', the implementation of a new system VBM 'would require managers and other employees to undertake new activities, to take decisions in new ways, and to adopt new ways of thinking about their jobs', and 'these changes in the way decisions were made could have led to other changes in the organization, and as such could have represented a revolutionary change for the company'. Miller and O'Leary (1994) studied the rising popularity of budgetary practices in the U.S. at the turn of the century. Using the Foucaultian perspective, they understand budgeting as 'the ensemble of rationalities and technologies' by which 'authorities attempt to act on the conduct of others, to shape their beliefs and behaviour in directions deemed desirable'. They also relate the emergence of budgetary techniques of the 1930s in both the U.K. and the U.S. with to 'normalization and governance of populations of individuals' (Miller and O'Leary, 1994).

The theories and practices of budgeting are impossible to be separated from management accounting and organizational development. As it is discussed in the previous section of this chapter, different management accounting approaches exist, and they approach management accounting information and management accounting system change based on different cognitive assumptions, and normally implying preferences of certain research methods. These differences among management accounting approaches naturally influence the literature concerning budgetary issues. For example, while understanding the definition of ‘budgeting’, the neoclassical approach views it as an instrumental technique used by rational individuals to achieve economic maximizing goals. The interpretive approach recognizes it as a medium of communication while people’s opinions or reactions towards it represent the actors’ interpretation of their world, or even as a device for organization’s social legitimization. Also, the critical approach may view it as the result of (or constitute for) the power structure based on different interest groups within the organization.

The literature review of different management accounting approaches (refer to the previous section of this chapter) is not aiming at locating management accounting studies into clearly labelled boxes and separating the ‘boxes’ from each other, but its aim is to purpose to facilitate the understanding of existing management accounting literature by relating it with its major social economical roots and organization studies’ origins. In doing so, it provides a broader management accounting context to understand budgetary issues and helps us to find an appropriate approach for the study of this thesis. The existing literature about the budgetary system is a result of the contributions made by different management accounting approaches.



While each approach may have its pros and cons, they together enrich the empirical experiences from different perspectives and implement the rationales to support studies in the area. Therefore, while reviewing the existing literature about the budgetary system, it is better not to focus on the boundary between different theoretical groups. Laughlin(1995)'s review of management accounting studies and Covalleski et al. (2003)'s review of budgetary studies allow this project to combine different theory or theories of change of the Western management accounting literature in the context of budgeting in Chinese companies.

As there is no previous study proposing a theoretical or methodological framework for Chinese companies' budgetary practices, an in-depth qualitative case study spending a relevantly long span of time can help the researcher to gain a deep insight of the research topic, and to combine different existing Western studies, to reveal rich pictures.

## ***2.9 Recent Studies Concerning Management Accounting Changes in China***

Although the 'modern-termed' management accounting including budgetary control (both of its theories and practices) emerges as one of the recent trends, which influences some of Chinese seeking-for-better-performance enterprises, its stage of development is far behind the counterpart in the West despite the fact that they recently share common trends through globalization. When there is the robust Western management accounting literature using different approaches based on various sociological or economical theories, recent studies have noticed the 'gap' between the

practices and conventional wisdom. Based on a variety of empirical experiences in industries ranging from public (i.e., NCB, NHS) to private, there is not such a systematically developed modern management accounting literature in China. The content is largely borrowed from the Western literature and the studies have very limited quantity. In parallel, at present, the practice of management accounting in China is at the pioneering stage.

To review the literature about China by focusing on the most recent changes in the management accounting is more realistic. In other words, reviewing the results of the recent Chinese management accounting studies as well as the results of other Chinese studies which can typically represent China's context concerning the recent accounting and finance infrastructural change as well as Chinese legal, religious, and social culture, can contribute to the understandings of the budgetary systems' 'prior to' the background, ongoing process and influences in the two Chinese case study companies investigated in this thesis. Because few management accounting studies towards Chinese companies have been done, among which even fewer are concerned about the budgetary control system in Chinese companies, a qualitative in-depth case study can allow the analysis derive from the data itself and then produce findings and suggestions being 'true' to the reality.

Many researchers have studied Chinese 'modern accounting' issues, especially after China's economic reform. Zhong (1988) did an early study on Chinese accounting systems, while Skouson and Yang (1988) introduced Chinese accounting reform. Scapens and Meng (1993)'s constructive study on Chinese management accounting pointed out that Chinese researchers are

‘unlikely to find a suitable theoretical framework in the West’ because of the differences between the two, but ‘agency theory and behavioural science may help to give direction to Chinese management accounting research in the future’. This suggestion is coincident with the calls of contextual study (Ansari and Euske, 1987; Robert and Scapens, 1987), ‘thick’ case studies (Chua, 1986; Otley, 1994), and understanding management accounting practices (Scapens, 2006). While detail studies of Chinese companies’ management accounting practices are very hard to find, China’s Accounting Academy has organized experts to examine Jiang Su Province Electricity Company’s Financial Management Information System (Yang, 2002).

Compared with the lack of experience in good management accounting (including budgetary) studies about Chinese companies, more attention has been received in the study about the features of Chinese social, economical, cultural and even religious environment. Although the studies we use as examples in this section may not necessarily belong to the area of management accounting, and some of them are comparative cultural studies or studies within MNCs, they still provide valuable hints to this study.

Martinsons (2008) used the institutional deficiency theory (TIDE) to explore how the development of relationship-based e-commerce in China has resulted from the lack of trustworthy and enforceable set of rules in doing business. It suggested that factors like personal connections (i.e, ‘guanxi’ in China, and blat in Russia), informal information, and blurred business-government relations (which also encourage corruption) constrain the transition from the physical marketplace to online market spaces. Lee and Oh (2007) based on Rodriguez,

Uhlenbruck and Eden (2005)'s framework, and examined the corruption issue in Asia from two dimensions of 'pervasiveness' and 'arbitrariness'. According to the previous research under this topic, Lee and Oh (2007) reviewed the puzzling phenomenon of rapid economic growth accompanying 'rampant corruption' among some Asian countries. This phenomenon is not only due to the 'immediate benefits' (see also, Boddewyn, 1988; Lenway, Morck & Yeung, 1996; Ring, Lenway & Govekar, 1990, quoted in Lee and Oh, 2007) brought by corruption, but also due to the fact that 'in many Asian countries relationship or network has been emphasized as one of the efficient ways of doing business' (Peng and Zhou, 2005, quoted in Lee and Oh, 2007) (for example, 'Xin and Pearce (1996) show that networking (called guanxi – relationship supported by reciprocal obligations – in China) capabilities can be a source of competitive advantage when formal institutions are not well developed', quoted in Lee and Oh, 2007), although 'not all' 'of what has been seen as a network advantage can also be seen as a corrupt behaviour' (Lee and Oh, 2007).

Chen and Tjosvold (2007) suggested findings rather new to the conventional thoughts about 'guanxi' and leader member relationships. According to Chen and Tjosvold (2007)'s review of previous studies, 'constructive controversy contributes both to resolving issues and strengthening relational bonds and understanding between managers and employees' (Tjosvold, 1982, 1998a, b; Tjosvold and Johnson, 1977, quoted in Chen and Tjosvold, 2007), while 'Chinese employees are thought to follow their superiors' instructions rather than disagree with them and have been characterized as conforming and respectful, perhaps even submissive to those with higher status' (Leung, 1997, quoted in Chen and Tjosvold, 2007), 'evidence suggests that Chinese people use

approaches that diffuse open conflict and avoid face-to-face conflict' (Kirkbride, Tang, and Westwood, 1991; Tse, Francis, and Walls, 1994, quoted in Chen and Tjosvold, 2007), 'it appears difficult to develop the conditions for open discussion in China' (Kiong and Kee, 1998, quoted in Chen and Tjosvold, 2007), and 'management in China is thought to depend largely on interpersonal relationships' (Hui and Lin, 1996, quoted in Chen and Tjosvold, 2007).

'Contrary to the general conclusion that avoiding open interaction is prevalent and culturally appropriate for China as a collectivist culture' (Graham, Kim, Lin and Robinson, 1988; Kirkbride et al., 1991; Leung and Tjosvold, 1998; Triandis, 1990; Triandis, McCusker and Hui, 1990; Tse et al., 1994, quoted in Chen and Tjosvold, 2007), Chen and Tjosvold (2007)'s results suggested instead that 'Chinese employees were found to be outspoken and open with the managers with whom they had developed personal guanxi and LMX (leader-member exchange) relationships. These results support recent theorizing that Chinese people are willing to discuss divisive issues directly in order to develop genuine harmony (Leung, 1996, 1997, quoted in Chen and Tjosvold, 2007). According to Chen and Tjosvold (2007), Leung (1996, 1997; Leung, Koch, and Lu, 2002, quoted in Chen and Tjosvold, 2007) have proposed that, in addition to smoothing over conflict to avoid potential interpersonal problems (Hwang, 1996, quoted in Chen and Tjosvold, 2007), harmony motives in China can also refer to the desire to strengthen relationships and solve problems out of a genuine concern for harmony as a value in and of itself. Chinese employees are not invariably close-minded and avoiding of give-and-take communication. More specifically, these results support the theorizing that dialogue is the ideal for Asian leaders. Although, public debate may be difficult, private discussions are needed to

show concern and care, deal with issues, and maintain relationships and harmony (Farh and Cheung, 2000, quoted in Chen and Tjosvold, 2007). Personal guanxi and LMX can cultivate an open-minded organizational culture that can help employees be empowered in the sense of gaining challenging assignments and satisfying promotions' (Chen and Tjosvold, 2007). Also, while 'guanxi may be thought to lead directly to managers providing promotions because of loyalty and reciprocity for previous favours', the study suggested that 'guanxi can develop the communication and understanding between managers and employees that in turn lead managers to have the confidence and knowledge to assign employees jobs and promotions. These results suggest that managers can make effective use of guanxi by encouraging employees to speak their minds and become better known and appreciated and, thereby, be more entrusted with job assignments and promotions' (Chen and Tjosvold, 2007).

The early part of chapter 4 will further introduce Chinese context (cultural, social-economical, and religious), before the start of data analysis.

As it has been briefly mentioned in the introduction chapter of this thesis, Li and Peng (2008) summarised 'three approaches to theory development in China research' which include:

- First, 'China-specific theories based on the unique Chinese traditions and realities' preferred by 'some local scholars' 'who are not trained in the West and who do not believe in the validity of Western views on theory development', which always are lack of 'sufficient theoretical background' and 'scientific methodology' (Li and Peng, 2008);

- Second, theories preferring to ‘investigate the validity of mainstream Western theories in China and to develop theories based on the anomalies discovered’ used by ‘many scholars who are returnees, those trained in the West and housed in Chinese business schools’. This approach ‘broadens the range of mainstream Western theories’, ‘enhances understanding of Chinese realities viewed from the lens of mainstream Western theories’, and ‘papers following this approach, typically written in English, are more likely to be published, read, critiqued, tested, and eventually accepted by non-Chinese-speaking colleagues’ (Xu, 2008, quoted in Li and Peng, 2008). However, ‘a major drawback is that mainstream Western theories are often developed out of assumption about realities that operate quite differently from China’, and the differences between Western economies and Chinese economy (for example, ‘State-owned Enterprises (SOEs) have a commanding (although gradually reduced) role in China’s economy) may cause problem when adopting this approach, or even ‘may result in a “forced fit” between Western theories and Chinese realities’ (Tsui, Zhao, and Abrahamson, 2006, quoted in Li and Peng, 2008);

- Third, an ‘integrative (hybrid) approach used by scholars who are not only interested in and familiar with mainstream Western theories’, but also are ‘aware of the uniqueness of some Chinese practices’, and thus ‘aspire to develop theories that integrate both mainstream Western theories and Chinese realities’. The advantages of this approach include that ‘scholars are interested in investigating the systematic differences in the assumptions behind Western and Chinese theoretical frameworks’, ‘scholars are interested in publishing in English and in establishing a common set of vocabulary that is understandable by non-Chinese-speaking colleagues’, and ‘scholars aspire to adhere to the methodological rigor and standard and are

willing to subject their work to the rigorous scrutiny of some reviewers who are methodology experts but who are not necessarily interested in China’, while ‘the draw backs entail’ ‘a long period of time to observe, compare, make sense, and then to theorize’, ‘a danger of having such new theoretical work rejected due to reviewers’ preference for existing theoretical framework’, and ‘a lack of appreciation by Chinese-speaking colleagues who are not fluent in English’ (Li and Peng, 2008). Though all these three approaches ‘have merits’, as Li and Peng (2008) admitted, they also suggested the preference of the third, integrative approach as it ‘is driven by the Chinese context as part of the rapidly evolving global economy’.

Discussing ‘the Chinese context within the global economy’, Li and Peng (2008) claimed that on the one hand, China is not only ‘portrayed as a part of “emerging economics” and a part of “transition economies’, but also ‘overlaps with Russia, India, and Western countries, given the increasing diplomatic, business and cultural interaction between China and these countries’, thus ‘it will probably be very difficult to develop China-specific theories that have no relevance elsewhere’; on the other hand, there are ‘substantial parts of China do not overlap with India, Russia, and Western countries’, and there exist ‘some relatively (not absolutely) unique aspects of the Chinese context’ . More specifically, Li and Peng (2008) identified the major forces ‘impacting Chinese firms, organized along three dimensions’: ‘cultural environment’ (i.e., ‘conflicts between Chinese culture and Western culture’, ‘multiple cultures in one firm’, and ‘geographic differences in development’), ‘institutional framework’ (i.e., ‘market system transitions’, ‘policy and government transitions’, ‘social system transitions, international exchange (WTO)’), and ‘firms’ management mechanisms’ (i.e., ‘ownership (state- versus non-



state-owned enterprises)', 'new venture governance', 'conflicts among different stakeholders') (Li and Peng, 2008). Furthermore, 'under the influence of these three major forces, each of which is changing rapidly', Li and Peng (2008) believed that 'most Chinese firms operate under either a high or at least a moderate level of uncertainty, necessitating continuous search and experimentation' and this 'condition of uncertainty is not totally unique to China'. Therefore, the integrative approach of theory development, which recommends researchers to 'act local (focusing on China), but think global', adopts a 'sensible cross-vergence' attitude towards the connection between the 'global trends in research' and local reality, searches for 'the elusive but ideal "transnational solution"' (Bartlett and Ghoshal, 1989, quoted in Li and Peng, 2008), and 'combines both context free and context embedded (China-specific) elements' can be both 'challenging' and 'rewarding' and hence is the right way to go for the 'theory development in China research'.

In brief, though originally aiming at discussing the literature concerning the topic of 'strategic management' in Chinese studies, Li and Peng' work (2008) illustrates clearly the position and context of Chinese management/ organizational research under the circumstances of globalization, and provides reasonable suggestion of approaching the theory development which integrates Chinese practice and the Western literature. The current thesis agrees with Li and Peng (2008)'s argument that the reality of Chinese companies should be the basis of research. And the researcher should also be able to gain benefits from a global perspective of thinking, and be open to continuous tests and developments by both native readers and Western reviewers in the

theories and the methodology. Other information provided by Li and Peng (2008) can be used in later parts of this thesis.

As it is mentioned in the earlier part of this thesis, according to the review of Li (2009), China's academic practices differ from the Western management accounting theories in 'definition, frameworks, profession, and morality'. Also, there is 'no professional committee, no systematic study, and no potential academics and practitioners in the area of management accounting' in China at the moment. While Li (2009)'s comments may sound pessimistic, statistics does not really show a better picture. Although it is hard to tell the exact number of Chinese universities (including colleges), it is estimated that there are 1,500 in total. Disappointedly, it is hard to find an independently designed management accounting subject (at undergraduate, postgraduate or doctoral level), even in the best Chinese universities. Moreover, among universities which provide this subject, management accounting is normally designed as a course within a program only. A very limited number of students are recruited and trained for study involving management accounting. For example, Management School of Peking University recruits one master-doctoral student for the academic year of 2009-2010, while management accounting is only an optional course, not an independent area. Fudan University (ranked at No. 6 among Chinese universities) accepts 3 doctoral students in accounting for the academic year of 2009-2010. Details about course design concerning management accounting are not available. Despite of these two cases, only Nanjing University and People's University accept doctoral students in management accounting for the academic year of 2009-2010 (Chinese educational bulletin for Chinese universities, 2010).

## ***2.10 A Few Key Words Concerning Budgeting***

There are several important terms in management accounting literature relevant with budgetary changes. To implement previous sections of literature review in this chapter, this section is going to clarify certain terms.

### **The Definition of Control**

Otley (1994) reviewed Anthony (1965)'s distinguishment of the management control from the strategic planning and the operational control, and the recent management changes, and he argued that, 'the traditional definition of the scope and practice of management control which was developed in the mid 1960s is now too restrictive' and 'the lag before practice is incorporated into theory has created a major opportunity for researches in management control'. Simons (1987, 1990, and 1995) and Langfield-Smith (1997) discussed diagnostic and interactive control systems. According to them, management accounting practices can monitor the implementation of intended strategies 'like the dials on the control panel of an airplane cockpit' (Mintzberg, 1978; Simons, 1995). Nanni et al., 1990; Bungay and Goold, 1991; Simons (1991); Kaplan and Norton, 1992, 1993 claimed for 'strategic controls'.

### **Profitability, Efficiency, and Effectiveness**

Three terminologies were compared by Emmanuel, Otley and Merchant (1993). According to them, "effectiveness" is concerned with the attainment of objectives; an action is effective to

the extent that it achieves what it was intended to achieve'. “Efficiency” is concerned with achieving a given result with a minimum use of resources’. “Economy” is a much more restricted concept, used predominantly in the public sector. It refers only to the containment of costs without regarding the results achieved. However it is an important concept for those organizations which have to live within the strict constraints such as rigid cash limits. These three terms are different while related.’

As Scapens (1994) said, although ‘profits do provide the basis for predictable managerial behaviour’ and ‘modern businesses are profit-seeking organizations’, ‘profit-seeking and maximizing do not amount to the same thing, except in a very simplistic view of the world’. This means that the rejection of the term of ‘profit maximization’ as the ‘absolute truth’ does not necessarily deny the profit seeking, cost consciousness, or behavioural rationality (although the behavioural rationality is argued as ‘bounded’ by Simon). In fact, ‘many other organizations, including those in the public sector, are increasingly expected to be cost-effective’ (see Humphrey, Miller and Scapens, 1993, quoted in Scapens, 1994), and ‘the appearance of rationality is characteristic of the professionalization of most modern organizations’ (Meyer and Rowen, 1977, quoted in Scapens, 1994).

Furthermore, existing interpretive empirical studies (refer to chapter 3 for examples) illustrate the superficiality of the appearance of rationality. Understanding what are really going on in the organization, is more complicated than looking at the ostensible phenomenon of introducing

‘advanced’ management accounting techniques and systems (including the systems and techniques relevant with the budgetary control).

## **2.11 Conclusion**

This chapter uses Laughlin et al.’s review based on Middle Range Thinking framework, together with Covalleski et al.’s review work (2003) as an instigator, to introduce multiple Western studies relevant with budgetary changes in the context of Chinese electronic household appliances industry at this stage. This chapter also introduces some relevant studies of Chinese companies’ accounting practices, or business in China in general. This is not an exhausting literature review. There are other issues like new organisational forms and their effect on concepts of responsibility accounting, the impact of new information technologies, the relevance of Actor-network theory to our understanding of organizational change, and the ‘beyond budgeting’ movement. The researcher is very aware of these issues, and is looking forward to applying them as well as other new development in Western management accounting theories in the context of budgetary change to future study of this project.

# Chapter 3 Methodology for an In-depth Qualitative Case-Study

## **3.1 Introduction**

As it is stated in Chapter one, this thesis aims at discovering the ‘real’ processes and influences of budgetary systems in a different context of China<sup>1</sup>. The concepts and use of management accounting devices relevant with budgeting are relevantly new in Chinese companies while existing empirical experiences are limited because few studies have been done ‘customized’ to the context. Thus, a researcher has to investigate a methodology ‘fitted’ with this reality to answer the research questions.

According to the discussion in Chapter 2 of literature review, there is no existing group of management accounting theories relevant with budgetary control being absolutely ‘superior’ to the other groups of theories. No existing group of theories has tackled Chinese budgetary issues specifically. Understanding budgetary issues in China thus shall cross instead of being limited by the boundaries among different Western management accounting theories. Also, under the special circumstances of China, survey methods are not enough to have a full understanding of the real process. Instead, as this thesis argues it is through in-depth case study the real process can be understood. Moreover, adding a longitudinal nature to the in-depth case study method allows the researcher to observe and understand changes in Chinese companies.

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<sup>1</sup> China as a different research context in management accounting issues relevant with budgeting, refers to firstly, the early stage of budgetary research about China and Chinese companies, especially in electronic household appliances industry (refers to chapter 1 and 2); secondly, China’s unique history, culture and social-economy which affect Chinese practitioners’ budgetary concepts and behaviour, and the potential research theoretical framework and methodology (refers to chapter 4).

Furthermore, budgetary control is defined and evaluated as ‘bottom-up’ by nature, allowing the space of flexibility and possibility of ‘games’. It is not only concerned about performance measurements and quantitative goals, but also issues such as group interests, supervising style affected by personality, power relationships, cultural implications, and so on. Hence, revealing the ‘real picture’ of budgetary control concerning these issues in a new context of different social economic background and with limited academic experiences in this context, requires research method/ strategy to go beyond quantitative measurement and linear generalization. A research design which is qualitative by nature suits the pioneering stage of practice and research about budgetary control in China. It allows diversified findings depriving from the rich research context and then can illustrate a fuller picture of the practice as well as the gap between reality and existing literature.

Briefly speaking, based on the analysis of the existing literature and the exploratory nature of this research project, and also based on the learning experience during the pilot study (refers to the section of 3.3), this chapter suggests that a qualitative research method, using longitudinal case studies, is considered as a methodology suited to this research project. This chapter introduces the philosophical underpinning underneath the epistemology and ontology chosen for this research project; the selection of industry, sites and companies; the role of literature, data, and researcher; data collection and analysis methods; validation; and methodological limitation, which are all coherent with discovering the influences of budgetary control from a bottom-up perspective, for a combination of research topic and context relevantly new in management accounting research.

### ***3.2 A Discussion about Alternative Ontological Underpinnings Concerning This Research Topic***

### **3.2.1 Introduction**

As it has been mentioned in the previous section of 3.1, there is a need to find a specific methodology ‘fitted’ with this research project. In order to investigate what research design suits this research project’s topic and context, and be able to answer the research questions, this section of 3.2 provides a brief discussion about the epistemological and ontological alternatives concerning the research topic of this study. Based on this discussion, it will be clarified that what epistemological and ontological perspective is preferred for the specific circumstances of this research project. The suggestions of pilot study (refers to the sections of 3.3 underneath) further strengthen the choice stated here. And later sections from 3.4 to 3.10 will explain the research design in details based on epistemological and ontological underpinnings adopted for this research project.

### **3.2.2 Previous Researchers’ Debate – An Epistemological and Ontological Explanation of Choosing Laughlin’s Framework to Introduce Alternative Underpinnings**

As it is claimed by Craig (2002), ‘in fact philosophy is extremely hard to avoid, even with a conscious effort’. While there is a need to find the epistemological and ontological underpinnings which are specifically ‘fitted’ with research circumstances of this study, it is necessary to critically examine the existing alternatives in management accounting literature, to examine the in-depth level of how they conceptualise management accounting information (including budgetary information), as well as how they conceptualise management accounting activities concerning with budgetary process, and why they conceptualise things in certain ways. In other words, confronting questions are ‘why different approaches think and do differently about management accounting (budgeting)’, and ‘what are the thoughts



underpinning these thoughts'. All of these concern about the 'thoughts behind the thoughts', and the 'why' behind the 'what', involve the field of philosophy.

As an unavoidable component of management accounting studies, a variety of efforts have been made to reveal the ontology, ideology, and epistemology of management accounting theories (including budgetary theories). For representative examples in accounting, there are Amernic (1996); Cantor (1989); Johnson (1995); Laughlin (1995); and Humphrey and Scapens (1996). A distinguished work of this doctrine has been done by Laughlin (1995, 2004), who has made a clear categorization of management accounting theories based on their theories' philosophical roots. The following paragraphs in this section will explain why Laughlin's framework (1995, 2004) is chosen here.

First, the debate concerning the existence of the world, as well as human beings' understanding towards it, have aroused huge interests in philosophy and accounting. In philosophy in general, from the ancient Greek naturalists and great philosophies to the second generation of the 20<sup>th</sup> century Frankfurt School; from Chinese philosophy of Confucius and Daoism to Indian Buddha, the discourse of the nature and human beings, the existence of the world and the understanding towards it, the interrelationships between human and the world and developments of this fundamental issue, have never stopped. In accounting, Llewellyn (1996) labels the idea that 'the world does not exist independently of our understanding of it' as 'relativist', while Eisner (1983), and Humphrey and Scapens (1996) label 'a "reconstructed realist" belief that we cannot access reality outside our language and knowledge of it' as 'relativist'. Concerning accounting researchers' discussions towards philosophers, Laughlin (1995) for example claimed that, the European 'rationalists' (i.e., Descartes (1596–1650), Spinoza (1632–77), Leibniz (1646 -1716)) 'maintained that it was possible through reason to

obtain an “absolute description of the world uncontaminated by the experience of any observer” (Scruton, 1982, p. 14)’ (Laughlin, 1995, p. 70), while the English ‘empiricists’ ‘ “argued that we have no ideas at all other than those which come to us via our senses” (Brown, 1979, p. 60-1)’ (Laughlin, 1995, p. 70-1).

This current section does not aim at giving a simple answer to this fundamental philosophical question which has been discussed for centuries. Instead it purposes to find proper epistemological and ontological implications to satisfy the needs of this thesis study. From this point of view, history is considered as a matter of both facts and construction. As Scruton (1982, p. 18) said, ‘objects [...] are objective, but their character is given by the point of view through which they can be known’. In other words, things do happen, but it must be ‘us’ that describe and analyse them. At the first level, this ratifies both the reality of management accounting (budgetary practices) and the possibility to observe and understand this reality by using management accounting (budgetary) theories. At the second level, it is noted that management accounting theories do exist, so do philosophical schools. But the relationship between these two are a matter of both actual existence and subjective relating (or ‘borrowing’) and analysing. Bearing these understandings in mind, there is no need to deny or ‘devalue’ the ‘subjective’ nature of reviewing the history of management accounting theories, and categorizing them according to their relationships with philosophical groups.

Second, as it has been mentioned above, the fundamental aim of this section 3.3 is to sketch a rough picture of the various philosophical thoughts behind the development of management accounting theories concerning budgetary issues. It will then find a suitable philosophical basis to start this study’s own thinking, and this study’s own way of constructing and obtaining management accounting knowledge concerning budgeting, which will be adopted

in later chapters. Providing such a picture of philosophical alternatives can show that the variety of management accounting theories concerning budgeting does not exist without reasons. They are not only a result of mass development of the socio-economic aspects of the society or societies, but also have been rooted deeply in human beings' different philosophical wisdoms which could be traced back to earlier times. There is neither one unique management accounting (budgetary) theory, nor one unique way to think about management accounting theory in order to explain budgetary issues, can answer every question and can solve all problems in budgetary process. And thus there is no approach which is philosophically superior or 'universally correct'. This conclusion is originated from a philosophical perspective, and coherent with the suggestions mentioned in the previous literature review chapter that 'there is no management accounting approach being absolutely "superior" to the other approaches'. As Laughlin (1995, p. 65) suggested, 'all empirical research is partial and incomplete and that theoretical and methodological choices are inevitably made whether appreciated or not'. Thus, in spite of the technical truth and false, it is not reasonable to make a definite judgement about which theory is ideologically right and which is ideologically wrong. Instead, it needs to be open-minded to realise that different management accounting theories concerning budgetary issues have their own suitability towards different matters under different circumstances.

Furthermore, since in fact some of the management accounting (budgetary) theories are developed based on some other management accounting (budgetary) theories, and there are frequently interrelated relationships and intricate intertwining among them, it is impossible to isolate one single theory while arbitrarily abandoning the others. Although it is not always necessary, it is possible to combine different theories in order to reach the best research result. By doing so, it is not ignoring 'the passion with which single theoretical perspectives are held'

(Young and Preston, 1996). Instead, it only means to be more open-minded to find a suitable path or approach for this study whether it is a single theoretical perspective or not. If the framework which will be introduced in the following part of 3.3.3, can roughly sketch a picture broadening the mind, one of the fundamental aims of this current section 3.3 is accomplished. Which framework exactly is chosen becomes less important and thus does not really cause a severe bias.

Third, Laughlin's framework (1995, 2004) possesses the qualities of clarity and broadness. That is why his work is chosen to illustrate alternative philosophical underpinnings. While it is unnecessary to review each piece of management accounting work and its philosophical roots in this thesis study, application of Laughlin's framework (1995, 2004) can also prove efficient.

The introduction of Laughlin's framework (1995, 2004) in the coming part of 3.3.3 will be based on all these intentions and explanations, to review the way in which researchers produce management accounting (budgetary) theories and why these researchers think in certain ways.

### **3.2.3 Laughlin's et al.'s Framework – An Epistemological Review of Accounting Studies**

Management accounting (including budgeting) researchers have participated in the construction of management accounting knowledge from different perspectives. Some of them have tried to improve the techniques (for example, activity-based accounting); some of them have made efforts in developing different groups of management accounting theories (for example, management theories using neo-classical economic theories; management

accounting theories adopting a contingency theory approach). Some of them discuss methodological issues which are required to grasp in order to trigger technical and theoretical developments; and some of them engage in sociological (or socio-economical, philosophical) thinking to find ‘the concrete earth’ for all these technological, theoretical, and methodological alternatives (for example, management accounting discussions borrowing the ideas of Habermas, Max Weber, Foucault, and so on, in order to search for alternative ways of thinking, to construct management accounting theories or to tackle management accounting practices like budgetary techniques and systems).

Within the last category of efforts which has been referred to in the paragraph above, there is one stream of literature attempting to ‘locate German critical theory within the accounting and also the organization theory literature’ including the works of Laughlin (1987, 1995); Broadbent and Laughlin (1997); and Laughlin and Lowe (1990) (discussed by Lowe, 2004). Especially Laughlin(1995) develops the theory of ‘Middle Range’ thinking of management accounting adopting a ‘middle degree’ of theory, methodology, and change based on his review of philosophical roots of management accounting theories. After Lowe’s (2004) review of Laughlin’s paper (1995), Laughlin further refined his ideas of ‘Middle Range’ thinking in 2004. Even though the current section does not target at claiming that the approach adopted for this study is ‘middle range’, Laughlin’s work is used here to briefly introduce the historical developments of the thoughts underpinning management accounting theories.

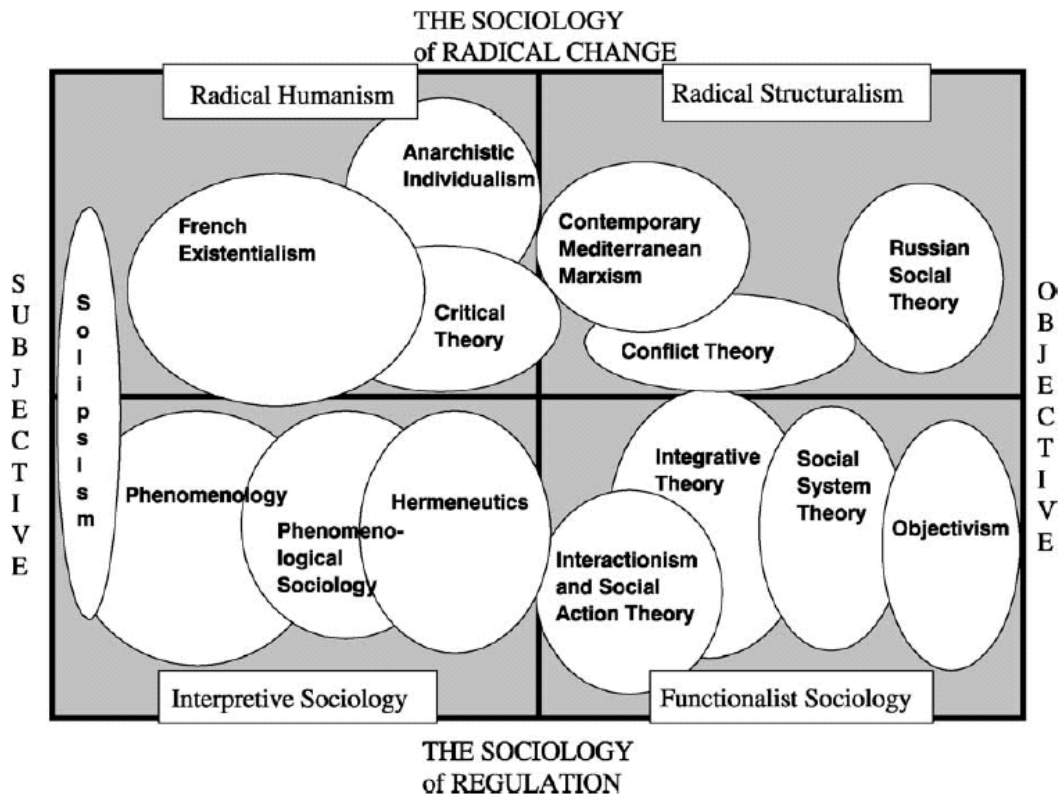
### **Laughlin’s Work (1995)**

Laughlin (1995)’s framework of ‘Middle Range’ thinking was developed based on his study of empirical research in accounting. According to Laughlin (1995), the ‘disillusionment with

normative thinking’ and the ‘interest in the shift to more descriptive studies’ during the 1970s, had ‘generated a wide range of empirical studies in accounting from various theoretical and methodological approaches’ in the 1980s. Together with this flourishing of empirical works, there comes debates about the approaches to empirical research – not only include ‘the battles between the “economics” and “behavioural” wings’, but also within the categories (Laughlin, 1995).

After the classifications of empirical approaches by Burrell and Morgan (1979, figure 3.1), Chua (1986), Hopper and Powell (1985), Laughlin and Lowe (1990), and relevant criticism (for example, Willmott 1990), Laughlin (1995) proposed his methodological framework of the approach to empirical study – ‘Middle Range’. Being different from Burrell and Morgan (1979)’s ‘a five part schema related to ontology, human nature, nature of society, epistemology and methodology’ (refers to figure 3.1), Laughlin (1995) clustered ‘these concerns under three broad bands which can be conveniently labelled “theory”, “methodology” and “change” choices’.

***Figure 3.1 Broad Methodological Categories, from Sociological paradigms and organizational analysis, London: Heinemann, 1979, Burrell and Morgan:***



According to Laughlin (1995), firstly, the ‘theory’ dimension ‘can express the amalgam of concern in relation to the level of prior theorizing and prior theories that can legitimately be brought to the empirical investigation’, and it ‘links to ontological assumptions about the nature of the world we are investigating and our view about its materiality as well as its generality of representation through previous theoretical endeavours’. More specifically, ‘high levels of prior theorizing are indicative of an assumed material world (which exists distinct from the observes’ projections and bias) which, despite empirical variety, has high levels of generality and order and has been well researched through previous studies’, while ‘low levels of prior theorizing’ ‘assume that the world is not material – it is a projection of our minds – and since such projections differ, generalities are impossible’. Secondly, the ‘methodology’ dimension ‘can have more or less of a theoretical definition for the “set of

spectacles” that forms the nature of the methods for the empirical investigation, which also has implicit implications for the role of the human agent in the process’. This means that it is relevant with both ‘theory’ and ‘human nature’ (observer’s role for example). So at the ‘high’ end of this continuum, ‘there is an implicit assumption that the observer is largely irrelevant to the process and his or her subjectivity or bias, which at the far extreme are assumed not to exist, plays no part in the process’, while ‘at the “low” end of this continuum, on the other hand, the individual observer is permitted and encouraged to freely participate in the observation process completely uncluttered by theoretical rules and regulations on what is to be seen and how the “seeing” should be undertaken’ (Laughlin, 1995).

Thirdly, although ‘what change means is complex and uncertain’, it in general refers to ‘attitudes by the researcher concerning the worth or otherwise of maintaining the current situation that is being investigated as well as views about the necessity for actually doing something about this situation. Those who believe in “high” levels of change have the view that everything they see is bound to be inadequate and incomplete and it needs to change even though it is not always in a position to engender the desired change. Those who believe in “low” change see little problem in maintaining the *status quo*. This would also include those who see understanding as the method to control and thus who may, on occasions, be very proactive in any phenomenon when it deviates away from an accepted equilibrium (i.e. the *status quo*). Those in the “middle” on this continuum are more strategic in their attitude to change – open to maintaining certain aspects of current functioning but also open to challenging the status quo’ (Laughlin, 1995).

### **Existing Schools of Thought:**



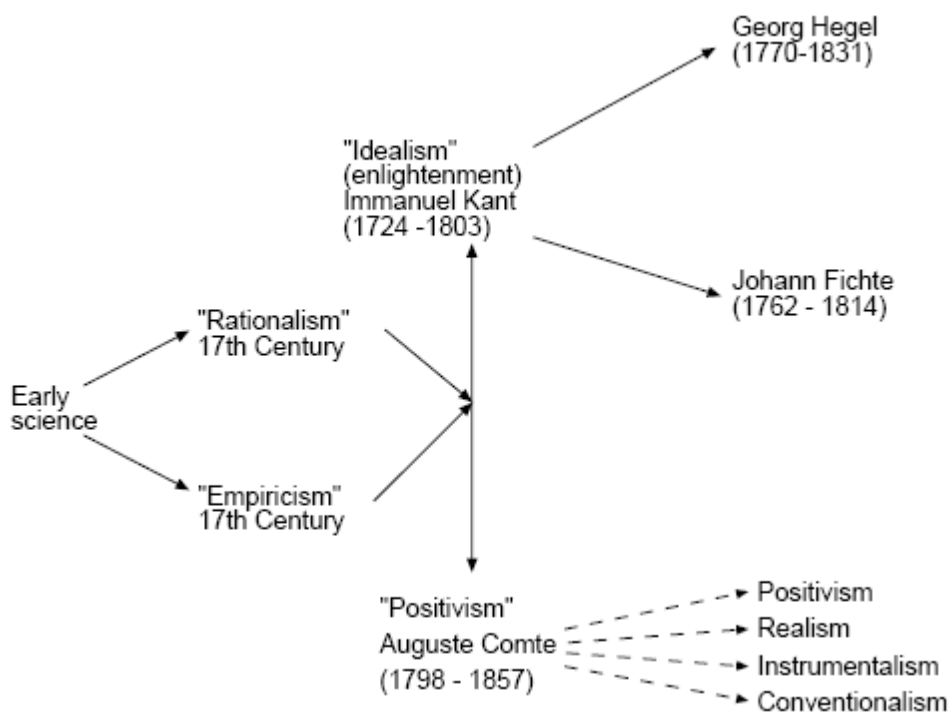
Laughlin (1995) then traced the origins of the schools of thoughts which have influenced management accounting theories (including budgetary theories), as well as the representing philosophers in details (figure 3.1, figure 3.2, and figure 3.3). According to this review, being influenced by the early science and wisdom, the 17<sup>th</sup> Century continental ‘Rationalism’ (important figures include for example, Descartes, Spinoza, and Leibniz) emphasised at ‘reason’, while the 17<sup>th</sup> Century British ‘Empiricism’ (important figures include for example, Locke, Berkeley, and Hume) emphasised at ‘senses’ and ‘experience’. Then, in the 18<sup>th</sup> and 19<sup>th</sup> Century, Kant’s critical ‘Idealism’ did not think that experience or reason alone could generate understanding while Comte’s ‘Positivism’ could bind the two.

According to Laughlin (1995), from the Kant’s line, on the one hand, Hegel’s critical and objective development of Kant did not only influence Marx (the “left” Hegelians) who adopted a critical but optimistic view towards society, but it also influenced Nietzsche (the “right” Hegelians) who took a despairing view towards the society. Marx then had come to Marxism which tried to struggle for a classless society and the better future. Marx had also influenced German Critical Theory (Habermas for example) which wanted society to be able to communicate rationally and openly. Nietzsche had influenced later French Critical Theory, especially the post-modernist tradition, including the works of Foucault, Derrida and Lyotard. On the other hand, Fichte’s non-critical and subjective development of Kant influenced Dilthey, Weber, Husserl, and so on, and had stimulated development of Pragmatism Structuration, Symbolic Interactionism (Kuhn and the Iowa School), Symbolic Interactionism (Blumer and the Chicago School), and Ethnomethodology (Husserl).

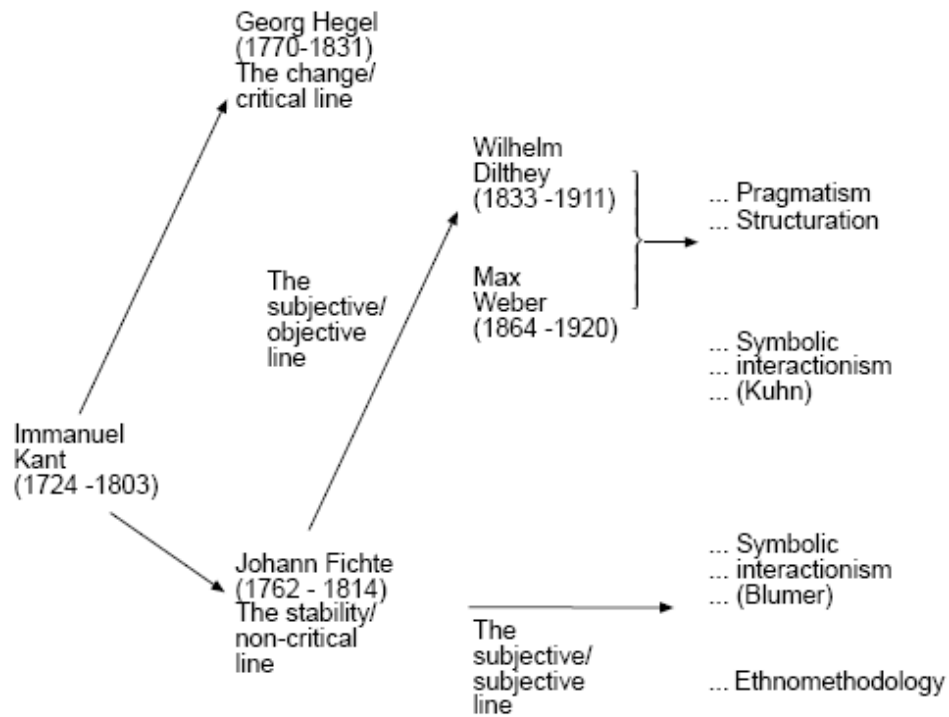
Also according to Laughlin (1995), from the Comte’s line, there comes Positivism which ‘would allow absolute descriptions of the empirical world to be made distinct from any

observer bias and clearly separated from any attitude concerning the need for change in the observable referent', Realism 'which allows more freedom with regard to the definition of explicans and explicandums', Instrumentalism which regards theories as 'only instruments for prediction' and has 'no explanatory power', and Conventionalism which includes more sociological end and the discovery process researched by Lakatos, Kuhn, and Feyerabend.

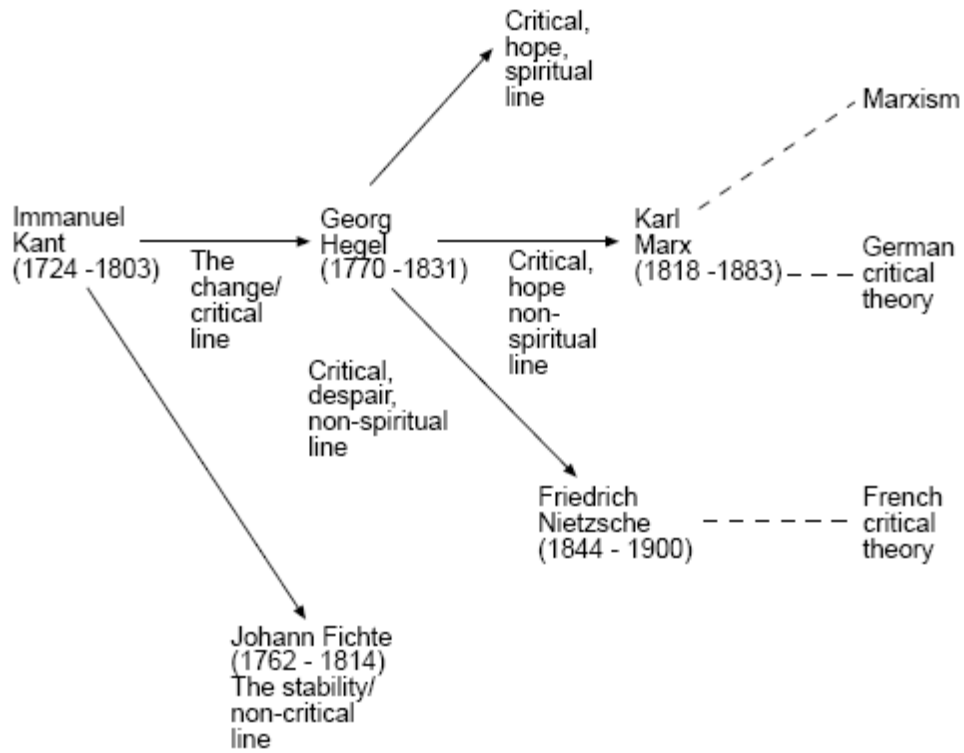
**Figure 3.2 An Overview of Key Changes/ Continuities in Theoretical and Methodological Thought, Laughlin (1995)'s Figure 3: p. 71**



*Figure 3.3 An Overview of the Kant/ Fichte Line of Theoretical and Methodological Thought, Laughlin (1995)'s Figure 4: p. 72*



*Figure 3.4 An Overview of Kant/ Hegel Line of Theoretical and Methodological Thought, Laughlin (1995)'s Figure 5: p. 75*



**Positioning the Existing Schools of Thoughts According to Their Degree of Theory, Methodology, and Change, and the Middle Range ('Skeleton') framework:**

Based on Laughlin's definition of 'theory', 'methodology', and 'change', and the review of previous schools of thoughts, Laughlin (1995) then positioned these previous schools of thoughts according to their relevant degrees of three dimensions (figure 3.4). This diagram clearly shows that, although it might not be easy to precisely measure the exact degrees, all these schools of thoughts do have their own stands in theorising, methodological perspective and concepts of change in prior. Laughlin (1995) then suggested a 'Middle Range approach ("skeleton")', which takes a medium degree in theory, methodology and change, for empirical research (figure 3.5). This 'Middle Range' is supposed to be able to combine the strengths of the approaches belonging to the two extreme ends, while efficiently avoiding the disadvantages of the 'extreme' approaches.

*Figure 3.5 Characteristics of Alternative Schools of Thought, Laughlin (1995)'s Figure 2:*

*p.70*

		Theory choice: levels of prior theorization		
		High	Medium	Low
Methodological choice: level of theoretical nature of methods	High	Positivism (L) Realism (L) Instrumentalism (L) Conventionalism (L)		
	Medium		German critical theory (M)	Symbolic interactionism (Kuhn) (L)
	Low	Marxism (H)	Structuration (L)  French critical theory (L)	Pragmatism (L)  Symbolic interactionism (Blumer) (L)  Ethnomethodology (L)

Change choice: level of emphasis given to critique of status quo and need for change (high/medium/low)

**Table 3.1 Some Key Characteristics of the Dominant Schools of Thought, Laughlin (1995)'s Table I**

	High/high low <sup>a</sup>	Medium/medium medium <sup>a</sup>	Low/low low <sup>a</sup>
<i>Theory characteristics</i>			
Ontological belief	Generalizable world waiting to be discovered	"Skeletal" generalizations possible	Generalizations may not be there to be discovered
Role of theory	Definable theory with hypotheses to test	"Skeletal" theory with some broad understanding of relationships	Ill-defined theory – no prior hypotheses
<i>Methodology characteristics</i>			
Role of observer and human nature belief	Observer independent and irrelevant	Observer important and always part of the process of discovery	Observer important and always part of the process of discovery
Nature of method	Structured, quantitative method	Definable approach but subject to refinement in actual situations, invariably qualitative	Unstructured, ill-defined, qualitative approach
Data sought	Cross-sectional data used usually at one point in time and selectively gathered tied to hypotheses	Longitudinal, case-study based. Heavily descriptive but also analytical	Longitudinal, case-study based. Heavily descriptive
Conclusions derived	Tight conclusions about findings	Reasonably conclusive tied to "skeletal" theory and empirical richness	Ill-defined and inconclusive conclusions but empirically rich in detail
Validity criteria	Statistical inference	Meanings: researchers + researched	Meanings: researched
<i>Change characteristics</i>			
	Low emphasis on changing status quo	Medium emphasis open to radical change <i>and</i> maintenance of status quo	Low emphasis on changing status quo
<sup>a</sup> Theory, methodology and change ordering			

**Laughlin's Work (2004)**

Later, Lowe (2004) used the SSK (the sociology of scientific knowledge) theories to deconstruct Laughlin's work (2004). He is not convinced that 'Middle Range' approach can definitely 'avoid the "problems" which beset the other approaches he identifies' (Lowe, 2004). The two-dimensional methodological map is in the middle of the space where Laughlin (1995) categorises Habermas' theories. It then suggests that solutions to methodological approaches 'would require the deployment of philosophy where perhaps even fiercer dispute characterise such issues' (Hacking, 1999; Lowe, 2004).

As a response to Lowe (2004)'s criticism, Laughlin (2004) defended himself against 'the intentions', 'underlying logic', 'fact production process', and more importantly, by refining his own framework (1995). Laughlin (2004) reconstructed his 1995 diagram of the 'characteristics of alternative schools of thought' (figure 3.6) and made a new figure of 'alternative research approach assumptions' (figure 3.7) which includes 'the empirical phenomenon about which understanding is being sought', 'makes the links between the theory and methodological dimensions more transparent' and 'provide a richer depiction of the diagonal'.

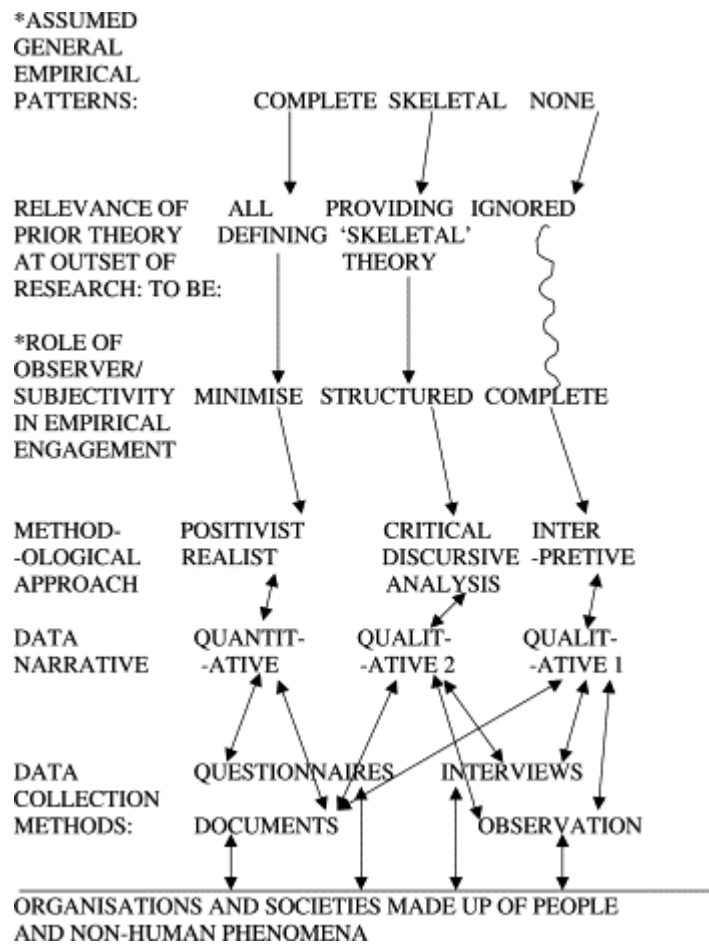


*Figure 3.6 Characteristics of Alternative Schools of Thought, Laughlin (2004)'s Fig. 2: p. 273 (originally from Laughlin 1995: p. 70)*

Theory choice: levels of prior theorisation				
Methodological choice: level of theoretical nature of methods		<u>High</u>	<u>Medium</u>	<u>Low</u>
	<u>High</u>	Positivism (L) Realism (L) Instrumentalism (L) Conventionalism (L)		
	<u>Medium</u>		German Critical Theory (M)	Symbolic Interactionism (Kuhn) (L)
	<u>Low</u>	Marxism (H)	Structuration (L) French Critical Theory (L)	Pragmatism (L) Symbolic Interactionism (Blumer) (L) Ethnomethodology (L)

Change Choice: level of emphasis given to critique of status quo and need for change (high/medium/low) (H, M, L)

Figure 3.7 Alternative Research Approach Assumptions, Laughlin (2004)'s Fig. 1: p. 272



Whatever weaknesses Laughlin (1995, 2004)'s criticism claimed them to have, including the improper demonstrations about the relationships among the dimensions (theory, methodology and change), the unsuitability of mapping the world by two continuums and locating the 'middle' among the two, the mis-location of Habermas' theory, the impossibility of providing a better practical solution towards empirical study by adopting a 'middle' way, and the ambivalence of the philosophical position of 'middle range', the group of discussion about 'middle range' thinking and its criticism at least have following contributions, and these contributions provide useful suggestions to this research project:

First of all, Laughlin (1995, 2004) has listed a number of schools of thought. While the borrowing and use of these schools of thought in management accounting (including budgeting) have been reflected in numerous existing studies in management accounting (including budgeting), Laughlin combed the threads and showed the picture of these schools of thoughts altogether. Therefore it provides a broad view of multi disciplines and their influences in management accounting (including budgeting). Laughlin's works (1995, 2004) reveal that it is necessary to realise that the development of management accounting theories (including budgetary theories) is not a simple linear development. Instead, it is always a coexistence of different theories, underpinned by different philosophical foundations.

Second, there are coexisting different management accounting theories (and their coherent methodologies) including budgetary theories, which in turn derived from different philosophical thoughts. Also, it is not appropriate to claim that a specific management accounting (including budgetary) theory or methodology underpinned by a certain group of philosophy is definitely superior to others. As Laughlin (1995) said, 'accounting theory will never be like a theory of gravity. Accounting is a social practice conducted by diverse social

actors' (Laughlin, 1995: p. 83). 'all empirical research is partial and incomplete and that theoretical and methodological choices are inevitably made whether appreciated or not' (Laughlin, 1995: p. 65), though this partiality might be realized by some researchers (for example the ones who discuss this issue) and be ignored by others (for example, those who think the quantitative end is the only truth). Furthermore, even though Laughlin has suggested a 'Middle Range' methodology for empirical study, he did not really propose a group of management accounting theory which could perfectly fit in this 'middle range' approach. Neither did his criticisms nor other management accounting researchers have proposed such a 'perfect' management accounting theory, adopting the 'forever-correct' methodology which is underpinned by 'the most solid' philosophical explanations. Therefore, it can be presumed that although there are various alternatives, there is still no single criterion which is safely considered as 'superior' even though some of them are mainstream and might be a phenomenon in the reality.

Third, while alternative theories, methodologies, and schools of thoughts exist, and no single one can be commonly recognized to be superior to the others, what Laughlin (1995, 2004) and his criticism (for example, Lowe, 2004; Hacking, 1999) suggest is to have senses of alternative ways of thinking and to make one's own choice by philosophical considerations of the coherence among the reality, philosophical thought, theory and methodology. And it is Laughlin's (1995, 2004) and his peers' thought such as this suggestion, not the 'skeleton approach' that has been demonstrated here and is used for this study.

### **3.2.4 The Epistemological and Ontological Underpinnings Appropriate for This Research Project**

#### **3.2.4.1 Suggestions from the Ontological Explanations in the Previous Section 3.2.3**

Above paragraphs briefly review previous academic discussions about the epistemology and ontology of accounting works, and introduce Laughlin's framework (1995, 2004). While the previous part 3.2.3 does not conduct a thorough philosophical discussion to find out the so-called 'absolute truth', claiming that the 'middle range' approach is to be the framework for this study, Laughlin's (1995, 2004) and his peers' works are used above to review alternative ways of undertaking management accounting (including budgetary) research and their philosophical underpinnings. This shows a rich picture, within which no single criteria can be commonly recognized to be 'superior' to the others. This also helps to grasp the 'essence' and 'spirits' of Laughlin and his peers' suggestions. Since all empirical studies are partial, it is unavoidable to make the choice and defend the choice. The choice should not be made only for its own sake. Instead, it should be backed up by more serious examination into philosophical underpinnings behind the specific situation, and be chosen for the coherence among the research reality, philosophical thought, management accounting (budgetary) theory, and research methodology.

Based on these, the following part of 3.2.4.2 starts introducing epistemological and ontological underpinnings 'fitted' with this research project, while the later sections in this chapter will explore more details based on these underpinnings.

#### **3.2.4.2 The Epistemological and Ontological Underpinnings Appropriate for This Study**

As it has been introduced in chapter 1, the main research objectives of this study include revealing and understanding real influences and process of the budgetary control systems in chosen companies. As it has been reviewed in chapter 2, since the research context is new, and practical experiences are limited, no management accounting study has proposed a

framework in the new context for this research topic, and no budgetary study has proposed a framework in the new context for this research topic. In addition, no Chinese study has proposed a framework in the new context for this research topic even though they may have influenced this study from certain perspectives.

Thus, according to the philosophical alternatives reviewed in the previous section 3.2.3 and the explanations about different management accounting approaches concerning budgeting in the chapter 2, a positivist or realist adopts quantitative data narrative and data collection methods including questionnaires and documents does not suit the mishmash reality Chinese companies are confronted with, while these experimenting Chinese companies are trying to gain competence by installing the Western budgetary system which is new to most practitioners. The quantitative approach is not sufficient either in evaluating the real process and influences of budgetary system, the reasons behind, and how to understand them under the fast changing environment in a different socio-economical context. Instead, a constructivist and interpretive stand (refers to following sections in this chapter for more details about management accounting studies which employs an interpretive approach) adopting qualitative data narrative and data collection methods including interviews, observation and documents can serve these purposes and answer the research questions of this project. The qualitative case-study approach produces the space and flexibility for this pioneering and exploratory study while maintaining to be 'faithful' to reality, through not limiting the findings by too rigid assumptions (even though naturally existing empirical experiences give theoretical supports and hence allows the researcher to draw certain broad assumptions), enabling findings to formulate directly from 'thick' data, listening to different voices of participants who are playing different roles in case studied companies, observing

participants' activities during the long-term field work, and analysing documents initially gathered from the field.

### **Constructivism**

According to Martin Ryder, it 'is a philosophical position that views knowledge as the outcome of experience mediated by one's own prior knowledge and the experience of others. In contrast to objectivism (e.g. Ayn Rand, 1957) which embraces a static reality that is independent from human cognition, constructivism (e.g. Immanuel Kant, 1781/ 1787) maintains that the only reality we can know is that which is represented by human thought. Each new conception of the world is mediated by prior-constructed realities that we take for granted. Human cognitive development is a continually adaptive process of assimilation, accommodation, and correction (Piaget, 1968). Social constructivists (e.g. Berger and Luckmann, 1966) suggest that it is through the social process that reality bears meaning and that our lives are formed and reformed through the dialectical process of socialization. A similar dialectical relationship informs our understanding of science (e.g. Bloor, 1976), and it shapes the technical artefacts that we invent and continually adapt to our changing realities (e.g. Bijker, 1996). Humans are shaped by their interactions with machines just as machines evolve and change in response to their use by humans (Lemke, 1993)' (Definition of 'Constructivism', Martin Ryder, University of Colorado at Denver, School of Education, [http://carbon.ucdenver.edu/~mryder/savage.html#def\\_constructivism](http://carbon.ucdenver.edu/~mryder/savage.html#def_constructivism)).

Hence, methodologically constructivism considers scientific knowledge 'constructed by scientists' and supports qualitative research by arguing there is 'no single valid methodology'. This makes it an epistemology 'opposed to positivism, which proposes that scientific

knowledge comes from positive affirmation of theories through strict scientific methods: quantitative research'. Constructivism claims that 'reality is independent of human thought, but meaning or knowledge is always a human construction' ('constructivist epistemology', Wikipedia, [http://en.wikipedia.org/wiki/Constructivist\\_epistemology](http://en.wikipedia.org/wiki/Constructivist_epistemology)). As Jonassen (1994) proposed, constructivist learning environments 'provide multiple representations of reality' and 'multiple representations avoid oversimplification through the representation of the complexity of the real world'. It is from this perspective that constructivism provides the flexibility of allowing the practitioners to speak for themselves, letting this study gain insights and richness from different angles, and consequently suits the complexity and exploratory nature of this research project.

### **Interpretivism**

Firstly, Interpretivism as a Philosophy of Social Science: Interpretivism, paralleling with positivism, structuralism, postmodernism/ poststructuralism, and so on, is one of the main research traditions in social science. It began to flourish in North American Sociology Departments from the late 1960s and 1970s, in a backlash against the natural science model. Interpretivism (Bryman, 2001) 'is taken to denote an alternative to the positivist orthodoxy that has held sway for decades. This view leads to the prediction that a strategy that respects differences between people and natural science is required. Therefore it is required that the social scientist should grasp the subjective meaning of social action.' Also according to this work of his, 'a division between an emphasis on the explanation of human behaviour that is the chief ingredient of the positivist approach to the social sciences and the understanding of human behaviour' could be observed. In short, interpretivism could be considered as a contrasting epistemology to positivism, and an opposite methodology to natural science. Personal understanding – interpreting - is the key point. It recognizes the capacity of



individuals to construct their worlds. Since human behaviour is the product of how people interpret their world, the interpretivism seeks to understand why people do certain things by attempting to gain access to people's common sense of thinking, and then to interpret people's actions and social world from their points of views.

According to Donnelly (2000), in Coakley and Dunning (2002), 'theoretical roots included in interpretive sociology are 'Weberian sociology, "sociology of everyday life" (symbolic interactionism, Goffman's dramaturgical sociology, labeling theory, phenomenological sociology, ethnomethodology, and existential sociology) (Douglas et al., 1980), and hermeneutics'. Briefly speaking, while 'Weberian sociology takes Verstehen (understanding); and Alfred Schutz (phenomenological sociology) developed Weber's work to distinguish between "because" motives and "in order to" motives; other interpretive sociologies (for example, existential sociology) assume that the actor's own meanings are the basis for analysis, while the remainder (such as ethnomethodology, Goffman's dramaturgy) focus more on discovery of the rules of social action and interaction' (Donnelly, 2000). Concerning the methods, according to Donnelly (2000), 'understanding' is the key to Weber's works (Weber, 1922), sociologies of everyday life use primarily ethnography and in-depth interviewing, and Hermeneutic methods are now likely to be termed 'textual analysis', and overlap with ethnographic and interview work at the level of 'discourse analysis'. In addition, between the 'system' approach and the 'action' approach, 'interpretive sociology fits clearly into the social action side of the divide, the position that has both its strength and its weakness'.

Based on these characteristics of interpretivism, interpretivism is criticized for both its theoretical and methodological aspects. From the theoretical perspective, the conflicts between interpretivism and values or relativity are marked. For example, if all behaviours are based on individual constructions of the world, chaos will prevail and even murder could be justified. For the methodological perspective, the quality of data gathered by the fieldwork and in-depth interviews are questioned, and the insistence on 'scientific method' leads to the criticism of hermeneutics and sociology of everyday life. Researchers were accused of being subjective, 'going native', 'producing unreplicable results', and being 'journalistic' in their research reports (Donnelly, 2000). These weaknesses have also been examined by interpretive researchers to improve interpretive research. Donnelly (2000) give examples including Kuhn who developed a more quantitative approach to symbolic interactionism that come to be known as 'the Iowa School', interpretive methodological texts warned researchers against 'going native', and it's argued that 'it's not surprising if good journalistic accounts are somewhat like sociological accounts'.

Second, the debate of using interpretivism in accounting studies: In adopting interpretivism in accounting studies, Boland (1989) reviewed some main thoughts of two forefront figures by offering valuable arguments for the kind of hermeneutic turn that should be employed by research on accounting in its organizational context. According to Boland (1989), Gadamer (1975, 1976, 1981) analyses prejudice and tradition, and accuses modern, positive science of 'distorting' our concept of language by conceiving the world as 'comprised of objects to be manipulated and of language as simply a tool positive science can use to point at, describe and operate on the world as it is simply given to us'. Rorty (1979, 1982, 1985) suggests that we could stop searching for 'objective', 'ultimate' foundations to our knowledge of the world,

and accept that human kind both makes and knows itself and its world through social practice, and thus it finds 'a new and more interesting way of expressing ourselves, and thus of coping with the world'. While Gadamer later be introduced to information systems (Boland, 1985) and accounting (Lavioe, 1987), Rorty's critiques are relevant with Morgan (1986)'s 'Image of Organization'.

Third, Management Accounting Studies Using an Interpretive Approach: In 'Understanding Management Accounting Practices: A Personal Journey' (British Accounting Association's annual conference on March 30<sup>th</sup>, 2005), Scapens argued that interpretivism arose as a methodology for management accounting mainly from the late 1980s and 1990s. According to the 'gap' mentioned in the previous chapter 2, while contingency theory seems to be unable to explain diversities of management accounting practices, the interpretive approach provides a useful insight into the understanding of particular companies. The aim of research here is not generalization but understanding of the process.

Berry et al. (1985)'s study of 'management control in an area of the NCB: rationales of accounting practices in a public enterprise' is one of the earliest management accounting studies which use an interpretive approach, as 'an attempt to understand management control systems in practice'. According to the research context introduced by it, after a failing experience of the standard costing system in the 1950s, the NCB introduced an information system including comparisons of plans to improve efficiency. Meanwhile, the organization structure had been further modified. Focusing on why management control systems take its form status quo, Berry et al. (1985) describes the 'accountability through colliery budgets and the action programme', the 'capital budgeting system', and the 'culture of the area'. This in-

depth observational study shows that, 'firstly, financial planning and control systems did not appear to be a dominant mode of organizational control. Planning seems to start from physical production planning and the financial plans derived from the physical exercise did not seem to be entirely articulated with the production plan.' 'Secondly, the parts of the whole organization appear to be only loosely coupled' ('decoupled'), 'so that one part of the organization was effectively insulated from disturbances occurring elsewhere in the organization and from pressures for change.' 'Thirdly, information, which is conventionally seen to be important as a way of enhancing visibility in an organization, may itself be a source of uncertainty and may be used and interpreted quite differently in situations where much of the production process is invisible'. That is, 'accounting and information generally may be managed either (or both) to enhance ambiguity or to provide legitimacy in (and about) the organization.' And 'fourthly, changes taking place in the organization may reflect not so much the needs of internal organizational management, but instead external pressures on the organization to appear efficient and responsive to apparent financial constraints.' The analysis of the budgets, especially the issue of accounting and information ambiguity and uncertainty as well as the role of accounting system and the role played by the 'coal mines' culture focusing on technology and production will be further discussed in later section of this chapter. Berry et al. (1985) also serves as an example of the research methods frequently used in management accounting research using an interpretive approach, including semi-structured interviews, conversation recordings, archival analysis, observations, field works, cultural analysis, (longitudinal) case study, and so on. While it is not a proposed framework of this type of research, they discussed in details about the context and purpose of these research methods as well as how to look at them as part of the empirical research.

Later, Scapens and Roberts (1993) studied the case of a division of the large multidivisional company, Omega, about its resistance encountered by the PCCP (production cost control project) development team to accounting change. Although studying a different case with different organizational structure in a different industry, a suggestion similar to the result of Berry et al. (1985)'s study has been found. It has been argued that 'the failure to secure the legitimacy of a new system, coupled with an inability to find a workable relationship between the languages of production and accounting, lead to resistance to accounting change' (Scapens and Roberts, 1993). While one of the accountants of the studied division claimed the company's reality as 'mish-mash' with 'all inter-related influences', Scapens and Roberts (1993) agree with Pettigrew (1985, quoted in Scapens and Roberts, 1993)'s argument that 'organizational change usually suffers from a focus on the content of the change to the neglect of its context and process'. Since 'what appeared as irrational to the project team may be seen to be rational when we look at the context and process of the accounting change', 'it is important not to dismiss resistance to accounting change as illogical, and emotional. Such resistance is probably informed by a whole variety of very real concerns and fears' (Scapens and Roberts, 1993). Thus, Scapens and Roberts (1993) investigates the study by 'explore[ing] the complex web of social processes which comprise the accounting change, to illuminate their historical and contingent character, and to illustrate how the process of change inadvertently created conditions which defeated the content of the change'. As a result, also similar to the research of Berry et al. (1985), Scapens and Roberts (1993) illustrated the reality of the accounting information and control system underneath what it ostensibly seems to be. The discussion about the case study method, and the role of theory in Scapens and Roberts (1993)'s work will be further referred to in the forthcoming chapter of methodology in this thesis.

Vaivio (1999)'s study focuses on the emergence of non-financial measures of management accounting system in a service-oriented British chemicals company, Lever Industrial-U.K. It agrees with previous studies (Hopwood, 1987; Innes and Mitchell, 1990; Bhimani, 1993; Scapens and Roberts, 1993; Lapsley and Mitchell, 1994; quoted in Viavio, 1999) that non-financial measure is an important instance of management accounting change. However, it argues that 'normative calls often present these (non-financial) measures in a functional and sanguine light, explaining little about the organizational processes introducing these practices. More intensive empirical work needs to balance prescriptive arguments, going further than the idealized imagery of "pioneering" firms. The complexity of this management accounting change should be explored in sufficient depth' (Viavio, 1999). Based on this 'in-depth' study embedded in the organizational changing process, Viavio (1999) examined how the TQ (total quality) measures introduced into the company failed to produce effects in reality in the 1970s because that it is isolated from 'official' accounting, personal impulsive move rather than coordinated initiative started the change. No regular mechanism which couples the measurements with management process, and no 'shared meaning' have been successfully built up. Viavio (1999) then also explains how a revolutionary management accounting change occurred after LI-U.K.'s merge with Jeyes Hygiene in 1989 which had been motivated by internal and external reasons. It also suggests that non-financial measures may have 'a more active and constitutive role to play in the management process' than 'being limited to a diagnostic purpose that serves the "implementation" of an intended strategy'.

In Ahrens and Chapman's longitudinal field study (2002), towards the 'accounting systems and their relationships to accountability in a U. K. restaurant chain', they agreed with Argyris (1953) and Ridgway (1956) that, 'the technical characteristics of accounting systems and the

formal rules governing the uses of accounting are necessary but not sufficient for understanding the implications of accounting for operational decision-making' (Ahrens and Chapman, 2002), and thus in order to understand the 'underlying relationships of accountability', 'the ongoing micro-process of accountability around the performance measurement systems' was 'studied in the context of the formal accounting systems' (Ahrens and Chapman, 2002). Using Giddens (1993)'s three modalities of interaction, it is observed that 'management and control practices did not flow unproblematically from the formal systems of accountability', instead, 'accounting systems and their implications were subject to a continuous process of interpretation and re-interpretation'. Within an organization with 'power asymmetries' and 'strict hierarchical relationships', the 'discussion of performance measurement practices were not concerned with the legitimacy of accounting per se, but the manner in which it could be drawn on to support the speaker's desired course of action'. Based on the illustration about the tension caused by the coupling between the central performance measures and local actions, it is concluded that 'the tensions that sprang from insistence on financial performance prevented relationships of accountability from becoming fully predictable' (Ahrens and Chapman, 2002).

In a more recent longitudinal, interpretive case study towards a gas processing company Eagle, in which VBM (value-based management) system was imposed by its parent, Siti-Nabiha and Scapens (2005) focused on 'the ceremonial way' in which the new system was implemented. While the implementation of VBM in the parent company NOC 'was in part, the result of its search for efficiency as well as the continuation of its practice of introducing (fashionable) management techniques and learning from other "successful" companies', resistance happened in Eagle since 'the norms and values, and the financially oriented ways

of thinking, which are at the heart of VBM, were in conflict with the existing institutions within Eagle, which could be characterized by a predominately production orientation', and it forced Eagle to carry on further revolutionary changes. Furthermore, Siti-Nabiha and Scapens (2005) explained 'how the key performance indicators (KPIs) became decoupled from the day-to-day activities of the business, thereby creating a level of stability which ultimately contributed to accounting change'. Not only has this study reinforced the 'complex and dynamic process of resistance to accounting change: a process which simultaneously involves both stability and change', but also it has 'important implications for the way in which "success" is defined in studies of accounting change' (Siti-Nabiha and Scapens, 2005).

In conclusion, the management accounting studies discussed above not only serve as examples of research using an interpretive approach, but also exhibit the experiences of empirical works. As Scapens and Roberts (1993) argues, management accounting studies adopting an interpretive approach believe that 'an understanding of accounting practice (as a form of social practice) can only be achieved by exploring the historical development of accounting and identifying the various influences on accounting change'. By looking at not only the content, but also the context and process of accounting change, frequently using a 'thick case study' research method, these studies do not just produce the results of accounting changes explained by rationality or simple causality but they also contribute to the understanding of what have really happened in the complex reality during the process of the change underneath the ostensible phenomenon, and thus they explain how the changes happen or not happen and why. Though these studies normally are not aiming at extracting 'a set of generalizable factors', they do give hints to management accounting theories and practices about understanding relevant management accounting issues and changes.



According to Chua (1986), ‘contributions of management accounting research works using an interpretive approach are easily to be seen’. They ‘indicate that accounting information may be attributed diverse meanings in practice’, ‘help constitute an objectified social reality and accounting numbers may be used to actively mobilize bias, to define the parameters permissible in organizational debates, and to legitimize particular sectional interests’, ‘question the traditional view of achieving pre-given goals’, and don’t ‘simply assume that conflict is inevitably “dysfunctional”’. Chua (1986) also reminded that the weakness of interpretivism itself, the danger of transforming interpretivism from another field of social science into accounting area, and the limitations when using interpretivism in management accounting (i.e., criticized by critical researchers as being ‘insufficient’) should be noticed. For the research methods used as tools for understanding, ‘logical consistency’, ‘subjective interpretation’, and ‘postulate of adequacy’ (Schutz, cited in Chua, 1986) have to be satisfied, and equally importantly, the awareness of linguistic cues and a careful attention to details are to be emphasized. While Boland (1989) criticized the dichotomy between ‘objective’ and ‘subjective’, management accounting researchers (i.e., Scapens) also demonstrated that it should go beyond the separation of ‘subjectivism’ and ‘objectivism’. Chua (1986) also mentioned that the interpretive approach put requirements on accounting researchers themselves – to grasp a full understanding of not only accounting issues, but also philosophy and social science roots. In the previous literature review chapter, a specific ‘institutional theory framework’ proposed by some management accounting researchers, based especially on old institutional economic theories, using the interpretive approach for their empirical studies within the framework has already been discussed. Since this current chapter focuses only on the discussion about methodological issues (including ontological and epistemological issues), it is not going to repeat the institutional theory framework in

management accounting. However, they will all be used in later data analysis chapters of this thesis.

Management accounting (including budgetary) studies adopting an interpretive approach do not aim at generalisation. Instead, they aim at understanding the process. According to Scapens and Roberts (1993), management accounting studies adopting an interpretive approach believe that ‘an understanding of accounting practice (as a form of social practice) can only be achieved by exploring the historical development of accounting and identifying the various influences on accounting change’. By looking at not only the content, but also the context and process of accounting change and by frequently using a ‘thick case study’ research method, these studies do not just provide the results of accounting changes explained by rationality or simple causality. Instead, they contribute to the understanding of what have really happened in the complex reality during the process of the change underneath the ostensible phenomenon. It is from these perspectives that interpretive paradigm has the strength to be appropriate for this study.

For the further clarification of the discussion concerning the underpinnings of management accounting studies in this section 3.2, Appendix I defines relevant terminologies (namely ‘ontology’, ‘ideology’, and ‘epistemology’).

### ***3.3 The Pilot Study***

During the whole year of 2003, the researcher collected general data about Chinese industries and selected electronic household appliances industry for it represents China’s manufacturing industry at this stage. The researcher collected information about this industry and selected

Shun De area to be the targeted data collection point as it is the largest base of this industry in China. The researcher also collected information about companies in this industry in Shun De and selected two based on their sales, numbers of employees, profits, sizes, organizational structure, manufacturing style, and their interest in using budgetary systems. The researcher then contacted high level managers in both companies who are in charge of issues concerning budgetary systems, and gained access for data collection.

Due to the Chinese culture, it is difficult to gain the access to the inner part of the organization without personal connections with high level managers. For example, the first contact the researcher confronted was the secretary of the general manager, and he could only provide general information which helps the researcher to examine whether the company is qualified for data collection or not. The secretary could not permit the researcher to collect the data 'in the field'. After getting in touch with the chief financial executive of this company, the researcher then was allowed to interview him for confidential information about budgeting, and later gained a permission of participant observation and in-depth interviews in different offices and branches of the company. Even the approval by high level managers for data collection may still cause problems during the data collecting process because there may be other managers who are not in good terms with the managers who introduced the researcher and also because relying on one key person in each company to gain access for data collection may bias the study. However, all of these colourful incidents can contribute to the understanding of this study's context. Therefore, instead of being negatively influenced, the researcher stays consciously 'alert' in recognizing the possible bias, the causes behind research difficulties and problems, and most importantly, what they can contribute to the insights of this study.

From November 2004 to March 2005, the researcher entered Company A's headquarters and the 6<sup>th</sup> Branch of the company. The researcher visited the headquarters guided by the secretary, gained information about the group company's structural changes, interviewed the general manager of the investment group and the chief financial manager. The researcher lunched and communicated with a number of other managers in the headquarters. The researcher observed events in the office of the general manager of the investment group, and observed the whole process of budgetary meetings between general manager, chief accountants and middle (departmental) managers in the 6<sup>th</sup> Branch Company and interviewed more people after the meetings. A three hour in-depth interview with the chief financial executive in Company B was also arranged for the researcher.

Guided but not restricted by the originally designed questionnaire and outlines of questions based on the contingency theory framework of management accounting (refers to Appendix II), the researcher managed to efficiently gather various information relevant with both companies' budgetary changes. However, while this framework is still useful even in a different context of China in helping the researcher to quickly engage in solid conversations with strangers, and to open up different perspectives for the researcher to collect information or look at things, it clearly proved its inadequacy in explaining the reality of budgetary systems in depth. While statistical results might satisfy research objectives of the project carried out in a more familiar research context, the researcher was reassured by the research reality after starting the pilot study. In order to satisfy research objectives of this thesis, in-depth explanations are especially needed since this study is conducted in such a different and dynamic research context which existing literature barely examines. In other words, while the contingency framework in management accounting relevant with budgetary systems can help

the researcher to bring conversations to the field, to learn certain facts about organizational structure, size, environment, culture, budgetary system's content and procedure (technique), it does not support the researcher to find out the reasons behind all of these, to explain the differences and similarities between studied Chinese companies' budgetary practices and the Western budgetary theories, to figure out what this study can tell us about what we did not know before, to suggest advices for Chinese companies' budgetary practices and future researches towards Chinese companies' budgetary systems. In summary, being tested in the mishmash reality of studied Chinese companies' budgetary practice, the contingency theory framework in management accounting was found useful but not enough to satisfy this study's research objectives, and to explain the real nature of budgetary practices in such a different research context. An alternative research approach allowing in-depth observations and explanations are needed. And these insights are the contributions of the pilot study.

Hence, the sprouting stage of studied Chinese companies' budgetary practices gave the researcher new information during the pilot study, and it also required the researcher to adjust the originally planned approach of data collection which employs a questionnaire-based contingency theory framework or interviews outlined by questions based on contingency theory framework in management accounting to a research design which allows the researcher to gain an access to more detailed budgetary practices of the studied companies, and enable the researcher to explain them (refers to the Appendix about the revised interview question outlines). Therefore, the researcher confirmed the research design as an in-depth longitudinal case studies based on Laughlin et al.'s approach to middle range thinking in management accounting, and the classification of budgetary theories of Covalleski et al. (2003) (refers to chapter 2 about Covalleski et al.'s studies). In this way, this study is not limited to

the contingency theory framework in management accounting, or any other single framework or school in management accounting. Instead, different theories can be adopted to complement each other to suit this study's own needs, within an interpretive and constructive qualitative research design.

More specifically, the pilot study is transferred and extended into the first phase of data collection of this study. Findings drawn from originally designed questionnaires are not abandoned, instead they are re-categorized and incorporated with field observations, in-depth interviews and documental analysis collected during the same period of time, and altogether contributed to the data analysis of this study in a non-linear statistical way. After more preparation for alternative theories, philosophical reflections, searching for suitable computer software, the second round of data collection (field work) was done from Nov. (2006) to March (2007). This time, the researcher re-entered the field of the 6<sup>th</sup> Branch Company of Company A, gained first-hand data towards Company A's newly development of budgetary systems, observed budgetary activities in new subsidiary companies who were learning from other components of the same group company more experienced in practicing budgetary systems (internal technological or managerial transfer). The researcher also observed Company A's commercial activities with its customers, competitors or collaborators (for example, suppliers) to gain a fuller picture. The researcher was allowed to enter Company B for in-depth interviews with managers or accountants at different hierarchical levels and in different parts of the whole organization. Interestingly, while the researcher was 'in the field' for the second round data collection, feeling more comfortable with the adjusted research design and theoretical framework, certain interviewees of the studied companies also noticed the change in the questionnaires and researcher's attitude. They recognized that the

researcher understood the issues concerning budgetary systems better by adjusting research design and approaching the research topic differently. The employers were happy to share more interesting stories, personal experiences, expertise, problems and worries. This revealed the more detailed picture which benefits this study. While the value of original design for the pilot study should not be denied, the final adjustment of research strategy is recognized and approved by Chinese practitioners 'in the field'.

### ***3.4 The Research Design -- A Qualitative Research Based on Longitudinal Case Studies***

As Riley, et al. (2000) states, 'there are many occasions in which we want not to "count", or quantify some social phenomenon or interaction, but to investigate feelings, attitudes, values, perceptions, motivations – those unobservable, fluid and intangible factors which help explain human behaviour. Only words can do that. Although one can "measure" an attitude, from the extremely negative to the extremely positive (-5 = extreme dislike; 0 = neutral; +5 = extreme liking) [...] that does not tell us whether my +5 is as strong as your +5, or if my "neutral" is for the same reason as your "neutral". The more interested and involved we become in studying human affairs, the more we realise that it is often not the actual numbers or observable states of affairs which fascinate us. It is why they come about, and the only way in which we are going to find that out is asking questions, collecting data, in the form of words rather than numbers. We observe and record conversations, actions, events, and then try to interpret them and their meaning through a range of concepts and theories which owe their explanatory power to factors other than statistical techniques or formulae. Instead, we use an array of interpretative techniques which seek to "describe, decode and translate [...] the meaning [...] of certain more or less naturally occurring phenomena in the social world" (Van Maanen, 1983: p. 9, quoted in Riley et al., 2000: p. 99) in situations where the

frequency of the phenomenon is not the issue.’ ‘This is the type of method of research we label qualitative, describing explanations based on non-numerical data’ (Riley et al., 2000).

The first reason this study adopts a research strategy qualitative by nature is that, this study does not only target at ‘counting’, or ‘quantify some social phenomenon or interaction’. Instead, it aims at explaining budgetary process. The research objective of this study – explaining budgetary process and understanding the bottom-up nature of budgetary process, in the specific research context of this study -- with limited experiences in a very different research context, is more likely to be achieved through ‘investigating feelings, attitudes, values, perceptions, motivations – those unobservable, fluid and intangible factors which help explain human behaviour’ – a qualitative research strategy.

According to Bryman (2001: p. 20), ‘quantitative research can be construed as a research strategy that emphasizes quantification in the collection and analysis of data and that’ ‘entails a deductive approach to the relationship between theory and research, in which the accent is placed on the testing of theories’; ‘has incorporated the practices and norms the natural scientific model and of positivism in particular’; and ‘embodies a view of social reality as an external, objective reality’. ‘Qualitative research can be construed as a research strategy that usually emphasizes words rather than quantification in the collection and analysis of data and that’ ‘predominantly emphasizes an inductive approach to the relationship between theory and research, in which the emphasis is placed on the generation of theories’; ‘has rejected the practices and norms of the natural scientific model and of positivism in particular in preference for an emphasis on the ways in which individuals interpret their social world’; ‘embodies a view of social reality as a constantly shifting emergent property of individuals’ creation.’



The second reason for this study to adopt a qualitative research strategy is that, due to the pioneering stage of this research project, there is no existing theoretical or methodological framework for budgetary control studies in China. The significant distinction between Western societies and Chinese society decides that it is unwise to presume a 'prior to' Western theoretical framework and to test it in Chinese society. No Chinese study has provided such a framework. Hence, this study cannot become deductive, emphasising testing theories. Instead, by presenting and understanding representative cases, comparing Chinese practices and Western theories, inductive generation can be gained for future studies concerning relevant research topics in China.

The third reason for this study to adopt a qualitative research strategy is as follows. According to the research reality, it is very hard to collect a large scale of quantitative data with a high degree of validation about the research topic in Chinese electronic household appliances companies at the time being: A. Due to the intense global competition and Chinese companies' continuous transforming to adapt to the environment, Chinese companies in the industry are at a stage of turbulent changes. In other words, the industry is not 'settled' and the practices are far from 'standardised'. Companies with less competence are pushed out while survived companies are 'exploring' new techniques (technological or managerial). With non-existing large scale quantitative research about budgetary systems in Chinese companies, and non-in-depth Chinese companies' studies about the specific topic of budgetary control, it is hard to propose a comprehensively quantitative questionnaire covering possible fundamental issues of budgetary systems in Chinese companies, but qualitative research can avoid this problem by observing 'raw data' and then derive findings directly from it. Also, turbulent changes through time and significant differences among companies may make it difficult to produce uniform questionnaires and standardised testing

in quantitative research, while these are beneficial elements for qualitative and in-depth research.

B. As Western oriented modern management accounting (including budgetary) systems are relevantly new to most of Chinese practitioners, there is lack of understanding towards relevant terms and issues by most of Chinese practitioners, or different understandings between Chinese practitioners and relevant issues' original Western meanings exist. Moreover, confusions in Chinese practitioners' understanding may even lead to differences between what they say they are doing and what they are actually doing. These all bring problems to the validity of their answers and the findings of quantitative studies. Again these overwhelming 'shortcomings' and difficulties for quantitative studies about such a research topic bottom-up by nature in a new research setting are exactly valuable materials for a good qualitative study. Clarifying confusions in concepts, misunderstandings or different understandings towards ideas, differences between words and behaviours, and conflicting opinions among different people provide interesting resources about how different 'individuals interpret their social world' and 'embodies a view of social reality as a constantly shifting emergent property of individuals' creation' – which are suitable for a qualitative research strategy.

Hence, the nature of budgetary system not only as a quantitative device but as a management accounting device influences different levels of an organisation, and thus requires not just a quantitative examination but an overall understanding about its real content, process, and outcomes. It is the pioneering stage of this research project with no existing framework to be tested. The research context as a totally different social setting requires 'personalised' observations about both its homogenous and heterogeneous features, compared with Western

experiences. The difficulties of collecting a large scale of valid quantitative data are caused due to turbulent changing environment and unsettled status of companies in the industry and due to the participants' confusions in understanding Western management accounting system. Therefore, it is more proper to adopt a qualitative research strategy for this exploratory study. Many of the limitations or difficulties confronted by a quantitative research strategy for this research project at present can be solved or avoided by adopting a qualitative research strategy because the complex, 'unsettled' and different reality cannot be explained by a quantitative research, and they are able to contribute to richer insights which are considered interesting and valuable for a good qualitative research. Whether in the future, quantitative researches for this research topic in the same industry or other industries in China are possible and appropriate or not, will be discussed in the conclusion chapter of this thesis.

As Bryman (2001: p. 21) also pointed out, 'while it is useful to contrast the two research strategies, it is necessary to be careful about hammering a wedge between them too deeply. You may discover general tendencies, but they are precisely that – tendencies. In reality, the picture becomes more complicated the more you delve'. Moreover, 'studies that have the broad characteristics of one research strategy may have a characteristic of the other.' This issue can be further examined in later section in this chapter.

For this thesis as a longitudinal case study, first, as Scapens (1991, p. 29) said, 'in the early years of the 1980s researchers tended to use question questionnaire surveys in their studies of management accounting practice. But as the decade progressed greater attention was given to case studies<sup>2</sup>. These studies attempt to understand the nature of management accounting practice and indirectly to explain the apparent gap between theory and practice which had

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<sup>2</sup> See Scapens et al. (1987) for some case studies

been identified in the questionnaire studies.’ Hagg and Hedlund (1979) mentioned a relative neglect of ‘soft’ methods such as case study. Chua (1986: p. 615) said that “‘thick” case studies conducted in the life-world of actors are preferred’ in interpretive studies. Otley (1994: p. 298) also sees case-based methods as approaches ‘likely to play a central role’. Ansari and Euske (1987), Roberts and Scapens (1985) called on ‘contextual study’ in the area of management accounting. More recently, Scapens (2006) again reminds management accounting researchers to understand management accounting practices.

Due to the fact that this study’s research objectives include understanding the nature of selected Chinese companies’ budgetary practices, and then be able to reveal its overlap or gap with existing literature, the case study research method is able to fulfil the research objectives by examining the bottom-up nature of budgetary system through observing budgetary practices at different levels inside the companies, and by showing a rich research context constructed from different ‘actors’ interpretations.

Second, according to Molloy, Woodfield and Bacon (2002), ‘longitudinal approaches are well established in social research. A quantitative panel of cohort studies is commonly used when measuring change over time, whether in attitudes, behaviours or experiences and when looking at causal links. Similarly, longitudinal qualitative approaches have been used extensively in the fields of sociological research, ethnography and social history to explore individuals’ changing life experiences and patterns. Constructionist approaches to social research such as discourse analysis have used longitudinal methods to look at how people construct concepts and views of the social world and how these have changed over time (Coupland & Nussbaum, 1993).’ Normally, it includes a relatively ‘long’ period of time, which permits us to compare and ‘re-addressing the original research questions at an

appropriate time' (Molly, Woodfield and Bacon, 2002). In details, see Ruspini (1999, 2000). As Chinese companies' current stage of development in using management accounting (including budgetary) system is at an exploratory and un-standardized stage, only by observing changes over time this study can be able to observe the real contents and influences of budgetary systems of the case study companies. Hence, exploring change over time, which is considered to be one of the chief goals of longitudinal methods (Molly, Woodfield, and Bacon, 2002), is especially appropriate to Chinese companies' current pioneering and un-standardized stage of budgetary system development.

Third, a longitudinal case study accords with the recognition that the world concerning budgeting is not a world of 'single truth' which is supported by the positivism. Instead, it includes socially constructed meanings and individual interpretations, which is motivated by more interpretive/ constructive groups of the ontology discourse. This method matches the epistemological and ontological underpinnings of this study.

Fourth, as Li and Peng (2008) summarised as 'three approaches to theory development in China research' (refers to section chapter 1 about research motivation and chapter 2), these researchers concluded that an 'integrative (hybrid) approach used by scholars who are not only "interested in and familiar with mainstream Western theories' but also are "aware of the uniqueness of some Chinese practices", and thus it "aspire[s] to develop theories that integrate both mainstream Western theories and Chinese realities". This is the most preferred approach as it 'is driven by the Chinese context as part of the rapidly evolving global economy'. However, Li and Peng (2008) also admitted that there are difficulties in this approach such as 'a long period of time to observe, compare, make sense and then to theorize', 'a danger of having such new theoretical work rejected due to reviewers'

preference for existing theoretical framework’, and ‘a lack of appreciation by Chinese-speaking colleagues who are not fluent in English’. Nevertheless, this study tries to adopt this approach preferred by Li and Peng (2008) by committing itself into long time-span longitudinal case studies to dig deeper into the research problems in a different research context.

### ***3.5 The Industry, Sites, and Case study Companies***

Chapter 3 focuses on introducing information concerning case study companies as well as the industry and the sites they operate in, with the data collection method, process, and data analysis software. As figures and technology alone are not enough to understand the nature of qualitative data collected in this research project, there is a section at the start of Chapter 4 (and 5) which introduces the Chinese culture and data collecting area (Shun De), and justifies any theory or methodology employed to conduct this research project in a specific culture of China and Shun De. Only through understanding the culture together with information and technology, budgetary events in case-study Chinese companies can be comprehensively understood.

#### **The Industry**

The electronic household appliances industry is one of Chinese industries with the highest degree of market economy. It is also one of the earliest Chinese industries entering international competitions (Kai, 2004). China is the largest consuming market of electronic household appliances (Xiamen Daily, 30 May, 2005). In the year of 2010, China’s domestic consumption of electronic household appliances broke the record by 1000 billion RMB, with an annual increasing rate by 18%. China is also the largest producing base in the world (Kai,

2004). The huge amount of consumption in the Chinese market not only attracts the attention of global capital, but also generates more than 20,000 Chinese producing companies (excluding material suppliers) around the Yangtze delta, Pearl delta, and Bo Hai Gulf area (Ran Zh., 25 March, 2005). Based on the figure of Year 2002 as an example, household electricity appliances exporting from China to EU (which almost equals to 1/4 of total export to the world) was about 20,500,000,000 dollars (China Business Times, 21 July, 2004). Based on the figure of Year 2011, 'the export of the electronic household appliance's by China takes up 1/3 of the total export of the electronic household appliances of the world, hence China is stably positioned in the global market as a 'Big Nation' in the production of electronic household appliances' (Jianfeng, Li, 2011). Moreover, China is not satisfied with being a 'Big' producer in electronic household industry through scale and speed. According to China's industrial website of electronic household appliances, during the year of 2010, Chinese producers were gradually upgrading themselves from the 'Red Sea' of price competition towards the 'Blue Sea' of technology competition (Yanhe, Zuo, 2011). Also, China's Year 2011 Forum of electronic household industry claims that China's long-term goal is to become a 'Strong' producer in electronic household appliances. This long-term goal implies that China attempts to lead the global development in this industry, and to build up global brands by Chinese electronic household appliances companies (Jianfeng, Li, 2011).

On the one hand, rapid development during the last decades has concentrated advantaged resources, created famous local brands, and even has enabled some of Chinese companies to compete abroad in this industry. On the other hand, the increasing price of steel, rapid reduction of domestic brands, international big-brands' entering into China after WTO, and threats from anti-dumping reactions indicate the complex environment and intense competition. Thus, conducting case studies in this important and experienced industry at this

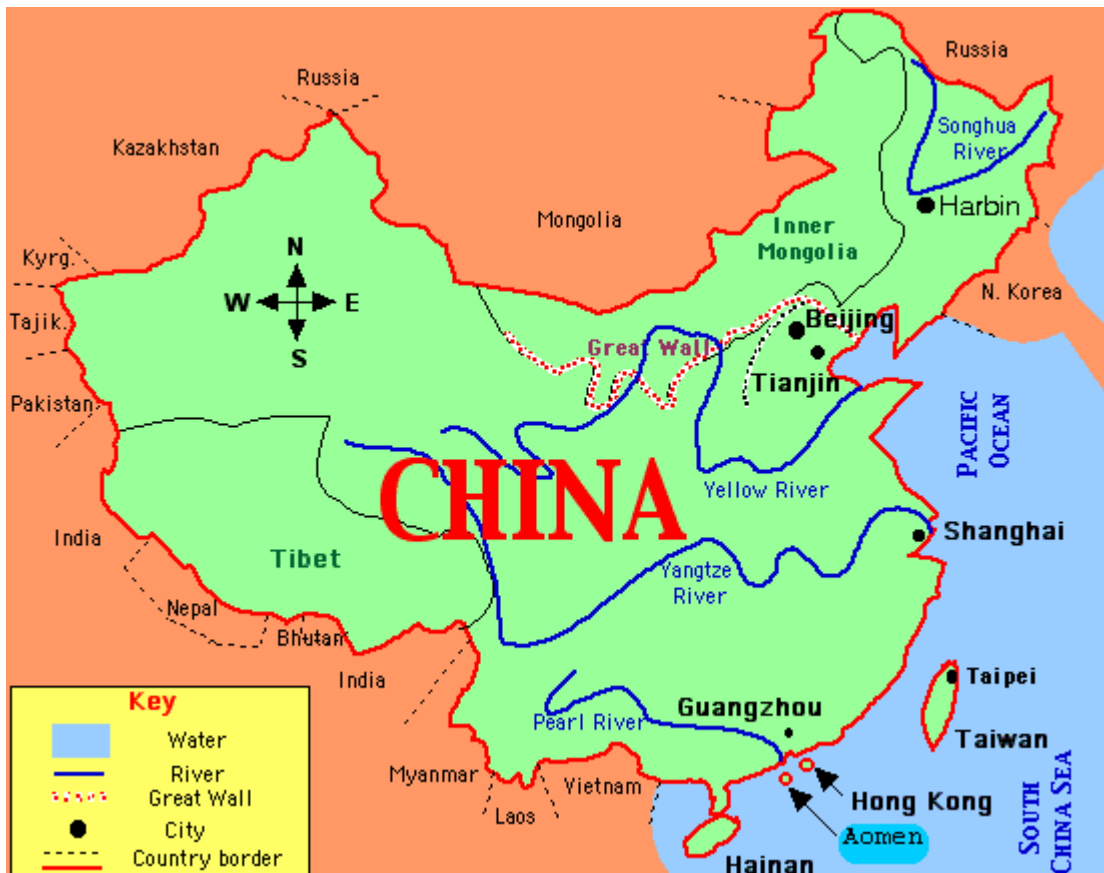
critical developing stage, under a fast changing and competitive environment is valuable and challenging. The first chapter of this thesis has already clarified that the choice of this specific Chinese manufacturing industry itself shall not affect the use of management accounting techniques and systems such as budgeting.

### **The Site**

The city of Shun De, located in the relatively developed Southeast part of China, and the Centre of Pearl River delta (refers to map 3.a), is called 'kingdom of electronic household appliances' by Chinese media and public. As the largest producing area of this industry in China, important domestic brands including MIDEA, KELON, RONG SHENG, GALANZ, and CHINAMACRO were all established here. The value of output in this city takes up 15% of the whole industry in China. The market ratios of different products range from 10% to 60% of the whole Chinese market in this industry. Besides, Shun De has become one of largest suppliers of components, and an important area of OEM. From key components as microcomputer controller, compressor, and so on, to basic five metals fittings are available here. This enables local companies of household electricity industry located in a 50 km distance to buy all relevant replacements within two hours. A complete and mature producing chain has been formed here ([www.XINHUANET.com](http://www.XINHUANET.com), 21 Oct., 2004). Until 2010, there were over 3,000 electronic household appliances companies plus supporting companies in Shun De (Jiang, 2010). Thus, choosing two companies in this kingdom of household electricity appliances is able to provide us enough interesting information for the study.

***Map 3.a. Map of China (the data collecting site of this research project is underneath Guangzhou, within the Pearl River Delta, at Southeast China):***





According to official statistics on 31/05/2011, in the year of 2010, electronic household appliances manufacturing industry in Shun De reached gross output value of 203.043 billion RMB, increased by 34.3% compared with the previous year. According to Shun De's local newspaper on 09/03/2011, Shun De's export of small-sized electronic household appliances reached 4.2 billion in 2010, ranked No. 1 in China. It took up 36% of the total amount of Canton Province, and 1/9 of the total amount of China. Therefore, the scale and tendency of Shun De's export of small sized electronic appliances affected the total scale and tendency of the export of small sized electronic appliances of Canton province and even China as a whole. For example, in 2008, the increasing rate of the export of Shun De's small sized electronic household appliances was 9.67%. Affected by global financial crisis, it dropped to -7.70% in the Year of 2009. Yet in the Year of 2010, it largely increased to 36%. According to these

figures of Shun De, it was estimated that China's export of small-sized electronic household appliances has already recovered from the abyss caused by global financial crisis.

Shun De has also started 'upgrading' its electronic household appliances industry. Concerning R & D, nearly 300 medium-or large-sized enterprises have research institutions. The first electronic household disinfectant cabinet of the World, and China's first artificial intelligence internet fridge were both born in Shun De. Concerning industrial structure, during the second round of this project's data collection, Shun De government provoked a debate of its industrial restructuring. A researcher who attended two major lectures/presentations given by Professor Lang from Walton and Professor Li from Shun De. Chapters of data analysis or discussion will include information relevant with this matter. Concerning promoting communication, Shun De successfully hosts an international exhibition and trade fair for electronic household appliances products (for example, the exhibition from 18/10/2010 to 21/10/2010). Concerning inner management and control, while Company B was one of the earliest Chinese enterprises who introduced budgetary systems in the 1990s, Company A was still relevantly early when it started budgetary reform in 2004 and 2005. Till the second round of data collection, the researcher discovered that it gradually became a trend in Shun De's electronic household appliances industry to adopt some management accounting techniques or systems including budgeting. Regarding the issue of whether these practices only represents a shallow fashion in management, or they may profoundly affect Shun De's electronic household appliances industry in a longer run, this thesis is going to discuss further. At least, these incidents indicate that Shun De's electronic household appliances industry not only plays an important role in this industry of China and of the World, but also it is on the track of continuous change.

## **The Case Study Companies**

After deciding the industry and locating the geographical site, certain categories have to be satisfied while evaluating qualified case study companies. According to the literature, only those big (Merchant, 1981) and utilitarian/ instrumental organizations (refers to Etzion, 1961, 'a typology of organizations') operating in an open system (Boulding, 1956) are to be the studied cases.

Merchant (1981)'s study on the differences found in corporate-level budgeting systems shows that in larger organizations, where there is greater diversity and decentralisation of decision making, there is greater participation in budgeting despite less personal interaction between managers, and a general attitude that meeting the budget is important to manager's career progress. It also notices that performance is highest in the larger firms when an administrative approach to budgeting is used, in contrast to smaller firms where the best performance was associated with a more personal approach. His study supports the contingency notion of the need for a fit between the size and the way in which a budget system is operated, and it is consistent with the findings by Bruns and Waterhouse (1975). Moreover, considering the situation of Chinese industry, only the big companies can bear the costs, and balance with the benefits of budgetary system. Also it is possible for some of them to be the early ones trying to introduce modern management control devices.

According to Etzion (1961)'s typology of organisations, organisations are classified into 'normative', 'remunerative' and 'coercive' ones and three kinds of personal involvement – 'moral', 'calculative' and 'alienative' - are respectively included,. Only the utilitarian/ instrumental organizations, in which remunerative power attracts predominantly calculative involvement, will be discussed in this study. It is not necessarily a clear-cut categorisation.

For example, instrumental organisations may participate in public activities for its image. Furthermore, in this study, organizations are considered as self-regulating, open systems interacting with the environment and are affected by environmental contingencies. Budgetary control of the selected case study companies is considered to be based on organisational control, which ‘focus[es] on plans of action, such plans are more the result of political compromise than of an optimisation process’ (Emmanuel, Otley and Merchant, 1993), not simply financial control instead.

Due to the hierarchical culture of China, unless the permission is gained through people of high positions at a relevantly high managerial level in the companies, it is unlikely that the researcher can access into the companies to collect business information, not to mention in-depth longitudinal case studies (field work). In 2004, a CEO’s secretary was contacted first for company B’s data collection. He was friendly but the data is only limited to organisational structure and public information. Later while Mr. Ch in Company B and Mr. H in Company A were contacted for data collection through network, not only field work and in-depth documental collection were permitted and carried on smoothly most of time due to their key positions in studied companies’ financial sectors, but also they provide crucial personal insights and experiences relevant with the research topic during the interviews. The researcher has to be sensitive to both the strength and benefits, and possible bias or difficulties brought by accessing companies through these specific employees holding key positions. Other details can be referred to in later section in this chapter.

According to Riley et al. (2000: p. 201), the decision as to ‘single case’ or ‘multiple case study design to go for depends upon (a) the reason for choosing the subject and (b) how much ‘external validity’ it felt to be necessary, meaning how much you might wish to generalize

from a particular case study.’ In more details, ‘obviously evidence and theories drawn from a multi-case study may be far more powerful, but the objective of the exercise may not be to make generalizations, but purely to investigate a “one-off” situation. The single case study can be one way of testing an already well-formulated theory, investigating an extreme or unique case, or observing a phenomenon which has previously not been accessible for study or has not even existed. On the other hand, the multiple case studies, whereby a number of individual situations are investigated, may prove very fruitful because of the ability to compare and contrast findings’ (Riley et al., 2000). To combine the strength of the two and to consider the research reality, this study selects two Chinese case study companies because of reasons to be explained in following paragraphs.

This study’s research objective includes discovering and understanding Chinese companies’ budgetary processes. Most of the theoretical and empirical studies of influences of budgetary systems, including both statistical studies and case studies, have been done in Europe and USA while few first hand research about this topic in China are found. Because of the differences between the Anglo-Saxon social-economic and cultural environment and China’s context, a special attention towards China’s national culture and Shun De’s local culture shall be paid (refers to chapter 4 and 5 of this thesis). However, cross-country comparisons are the research objectives of this study. Hence, Western management accounting theories concerning budgetary issues are used as theoretical support and as existing empirical experiences. Empirical differences found during this research are to contribute to revealing the gap between Chinese companies’ budgetary practices and Western management accounting literature concerning budgetary systems.

To illustrate and understand Chinese companies' practices in the Chinese context, qualified Chinese companies are chosen for this study to give rich insights. As it has been explained in previous sections of this chapter, in-depth longitudinal field work in the selected companies is preferred than a superficial contact with a large number of companies. Due to the nature of this longitudinal qualitative case study and the reality, this study chooses two companies of the same industry located in the same area. They have similarities in that they are large and instrumental, practicing budgetary system. However the two companies differ in scale, level of rank and timiatoo, dominant feature nature of manufacturing (A's mostly ODM or OEM, while B majorly produces products under its own brand), time to start budgetary reform ( B started around the year of 1995 and 1996, the first round in Chinese companies in the industry, while A started in the year of 2004), stage of budgetary reform (B was implementing budgetary system to a deeper degree while A was starting its budgetary reform when the first round of data collection began in the year of 2004), status in stock market (B was one of the first listed companies in the industry while A has been trying hard to become one during recent years), overseas businesses (B has manufacturing sites and established business networks abroad, while A is cautiously adventuring its own overseas investments).

Hence, choosing two of them can not only guarantee that this research project can be conducted at least based on one company, in case any unpredictable difficulties happen to the study of the other company. It also can provide multiple empirical experiences which represent companies at different levels. In so doing it can illustrate a more comprehensive picture. While these two companies are both representative in their own types, in spite of the significant differences between them which can provide us with different perspectives, interestingly similarities in their changes of concepts and practices about budgetary systems, providing insights towards a more general tendency. Data analysis chapters examine the

similarities and differences of these two case study companies' changes in budgetary concepts and practices over time, and analyses the reasons and influences of them.

Company A has been growing rapidly within last two decades and has become one of the leading companies in the area. It transformed from a workshop in late 1980s to a group company with an annual sales of around 6 billion RMB (Deng, 2010). The Group Company A was established by two brothers, who are now the chief and vice-chief of the board of shareholders. They were both born and bred in Shun De, a region with an innate spirit of entrepreneurship (Chapter 4 and 5 of this thesis are going to further introduce culture of the site). The elder of the two brothers quit his senior high school education and established the core company A1. The younger brother joined in after finishing university education. They are both in their early 40s.

At the beginning (from the late 1980s to 1990), Company A quickly established itself by producing electronic irons and hair-dryers for China's domestic market, and reached a satisfying market percentage. Later on, China's small electronic household appliances market sank into a situation of vicious competition. Under these limiting circumstances, the founding brothers willingly gave up low-added-value production targeting at the domestic market. At that time, European and American people yearned for good life quality. They had an increasing demand for delicate small-sized electronic household appliances. Through the interactions with foreign customers in China's Import and Export fair (Guang Zhou Fair), the founding brothers came to know the idea of 'OEM' and then started experimenting doing it. These two brothers' cleverness and sincerity quickly earned them the favour of foreign customers, and Company A formally paid its attention towards the European and American markets which possess huge market potentials. Around the mid-1990s, benefited from

Chinese central government's relaxed policies, Company A was able to establish strategic cooperation relationships with major global enterprises including WAL-MART, GE, SUNBEAM, AFK, and so on (by an anonymous author whose representative code is china10, MAIGOO electronic household appliances research institution, 2011). As a result, the OEM-dominant production style was established in Company A by the end of the 1990s, focusing at European and American small electronic household appliances markets. Until now, Company A mainly does OEM & ODM style of designing, producing, and selling of small-size electronic household appliances. Products manufactured by Company A belong to more than 12 categories and 1000 kinds including electronic bottles, bread toasters, coffee boilers, electronic mixtures, and so on.

From 2000, the development or expansion of Company A further speeded up. As an evidence, during the golden three years (2000 and 2003), Company A's annual sales amount continuously increased by 60% each year. As a result, in 2002, Company A became one of Top 10 exporting companies of Canton Province, in electronic household appliances industry. In 2003, Company A established a sales company towards China's market, which formally marked Company A's re-entering into China's domestic market of small electronic household appliances. According to Company A's own statistical figure, until 31 December 2003 (before the first round data collection took place), 99.2% of Company A's products were sold under customer companies' brands to oversea trading companies and retail stores, and native retail stores. And 0.8% of the products were sold under three brands of Company A's own. Evaluated based on the quantity of exporting products, Company A has become one of the largest scales among Chinese manufacturing companies for small-size electronic household appliances. Based on its OEM production, Company A's products have entered over 100



countries and districts all over the world until 2011. Company A has been recognized as a worldly renowned manufacturing base for electronic household appliances.

The development didn't stop after these three golden years. In 2005, the main business income of Company A broke its own record by reaching 3.1 billion RMB with 95% of its products sold abroad. Company A hence became the Number One among Chinese private small household electronic appliance enterprises. In the same year, Company A was also one of the Top 10 taxation payer corporations in Shun De with the tax payment of one thousand million RMB. It received the 'Green Card' from United Nations' buyers. Concerning with products' quality, from 2004 to 2006, Company A established a Technology Research and Development Centre, Company A's Lab passed China's National CNAL accreditation, Company A's electronic iron and microwave oven series' products were honored to exempt from China's national quality examination, Company A's electronic kettle and electronic iron were rewarded as Famous Brand Products by Cantonese government, and Company A's electronic kettle was rewarded as China's National Famous Brand. Concerning with the scale, A1 alone has 15,000 employees, among whom three thousand are technical professionals, and the factory site is over 400,000 square metres. It was during this period of further development and expansion, the researcher finished two rounds of data collection in Company A while this company had already successfully established itself in name, scale, profit and quality, and hence was pressured to adjust its inner control systems to match its rapid growth.

With the changes in profits, sales, scales, and products' quality, came the changes in Company A's formality – management, structure, and an identity shift by becoming a listed company. After being listed in China's stock market, Company A has kept trying to go to the

H.K. Stock Market within the last few years (refers to the data analysis chapters). Company A also has kept restructuring its organizational structure and management style to develop itself and to fit into the environment. Until the time of the pilot study and the first round of data collection in 2005, it has expanded from a company with unorganized big-factory style to a group company with 9 companies with clear roles. A1 is the largest core company, while the First, Second, Third, Fifth, and Sixth Subsidiary Corporations are divided according to different products categories. Until the time of second round data collection from 2006 to 2007, Company A had further reconstructed its organizational structure due to the stock market's requirements. It then includes Aa (the core manufacturing company A1 and its branch companies) and Ab (an investment group including newly purchased subsidiary companies) (also, refer to data analysis chapter for further introduction and discussion about these changes). When on-time technological innovations and structural adjustment had become insufficient to face the external pressure and threats, Company A decided to carry on reformation in management accounting by installing budgetary systems at the end of 2004. The reasons of this budgetary reform, a comparison between the previous simple 'figure budgeting' system and the new one, what and how practitioners do during the reform, how they influence the company, how and why the employees perceive this reform, and relevant situation of other management accounting changes all provide fresh and 'living' research materials for this study. By the time the second round of data collection of this research project was finished, Company A had not only established budgetary system and other management accounting systems (refers to chapter 4 of this thesis regarding different perspectives of management accounting changes and their influences or indication towards changes in budgetary systems), but also had refined its organizational structure with more systematically established investor relationships, innovational design ability, manufacturing capability, quality system, international freight ability, and sales services. Chapter 5 of this

thesis reveals some negative aspects of the development; for example, due to its own deficiency, the setbacks Company A experienced during its attempt to be listed in Hong Kong stock market. Also, Company A had weakness in its organizational structure. Company A's development has become a whole, incorporating different perspectives.

After the second round data collection, in 2008 the global financial crisis forced a large number of Chinese companies to produce OEM style small electronic household appliances to withdraw from the market. Fortunately, because of the decrease of raw material prices, Company A's effective stock turnover management, and more importantly, Company A's efforts for its inner development (i.e., budgetary reform) before the financial crisis broke out, Group Company A only suffered less in the sales amount to foreign market. In 2 years later, A1's profit reached the highest point in spite of a lot of turbulent environmental changes, Company A confronted a challenging time again. In 2010, the rapidly increasing price of raw materials caused by the gradual revival of World economy, another employment crisis due to the lack of employees (manufacturing workers), the negative influences of European financial crisis to Chinese companies' export, the intensified expectation on the increase in Chinese currency value – RMB, and the changes and reinforcement of Chinese governments' policies to increase interests rate to control domestic inflation, all pressured the Group Company A to fasten its steps on strategic adjustment. In response to these external changes, Company A is transforming itself from OEM dominant production to ODM and OBM (Original Brand Manufacturing) dominant production.

As an evidence of this further strategic shift since 2010, Company A initiated its three- phase investment project (from 2010 to 2018), to establish a manufacturing site in inner land of China, to serve the domestic market. Company A's official speaker, Mr. P. (CEO assistant of

Group Company A) said, ‘since the global financial crisis, we have realized that overly relying on OEM brings more corporation risks in this increasingly complicated international economic environment. On the contrary, with the continuous growth of China’s economy, Chinese domestic consuming power keeps expanding. Together with the practice of China’s national compensation policies i.e., “Electronic Household Appliances Going to the Countryside of China”, there is a potential for Company A to gain higher level of profit return through gaining a higher market percentage and a stronger market position in China’s vast domestic consuming market. This strategic shift is what Company A has to do at this point of self-development. Briefly speaking, Company A’s strategy at the moment has been to secure ‘competitive advantages in foreign market, and creating strong domestic brands of our own’ (quoted by Deng, 2010). Chapter 7 in this thesis introduces more about Company A’s most recent development, and the researcher’s opinions about the possibility of Company A’s potential growth through the current strategic change, based on Company A’s existing achievements in inner management accounting changes which started from budgetary reform.

The Group Company B was founded in the late 1960s, entered the industry of electronic household appliances in the 1980s and began to use its own brand name ‘B’. Company B was elected to be ‘Chinese Famous Brand’ by the National Bureau of Industry and Business in 1999. Its brand value was evaluated over 12 billion RMB as one of China's most valuable brands by professional organizations, In the late 2000s (under the researcher’s request specific year cannot be shown), Company B was Top 1 in Canton Province Government’s official list of Top 100 private enterprises in Canton. In 2010, Group Company B ranked between 60 to 70 (under the author’s request, the exact ranking Company B received cannot be revealed), in China’s national list of Top 500 Chinese enterprises. Until now, Company B has already broken the record of annual sales amount of 100 billion RMB. During the years, B

has always kept a healthy, steady, and fast development. Its average increasing rate was 60% in 1980s, 50% in 1990s, and 30% after 2000. In the year of 2003 before the first round data collection was started, the sales revenue of B Group was over 17 billion RMB, which increased by 30% more than the year of 2002. B Group had a total asset of over 10 billion RMB, and over 30,000 employees in total. B gained 500 million US dollar from exportation. The sale rate reached 100%. After on-going adjustment, development and expanding, B has now become a large modern integrated group company whose main area is household electronic facilities. The group company has six manufacturing plants which takes up over 23 million square meters' land. The products of Company B have always been at the top level in China since the 1980s. Its products have been distributed to more than 100 countries and regions of the world. Company B has also entered other industries and has kept expanding its businesses in recent years.

Company B has gone through structural changes, which resulted in a large organisation based on the business department (or sub-groups based on products types). Different from Company A which focuses on small-sized electronic household appliances' production, Company B gained its fame and position mainly through producing medium and large-size electronic household appliances, especially 'white' (freezing or cooling) electronic products. Its 'white' electronic appliances sub-group alone employs over 40,000 employees; produces air-conditioners, freezers and washing machines. At present, this sub-group has made Company B China's largest and the most complete producing chain of air-conditioners (whole air-conditioners, compressors, and electric machinery). Group Company B's another second-class sub-group, daily electronic household appliances sub-group, enables Company B to own China's largest and most complete products chain for small electronic household appliances (electric fans, water dispensers, Soya milk maker, water heater, vacuum cleaner,

and heaters), and kitchen appliances (fridges, dishwasher, rice cooker, sterilizer, etc.) , i.e. microwave ovens (microwave ovens, magnetron, and transformer). Until now, the second sub-group has a total asset of 6.8 billion RMB with 30,000 employees. It has a sales net including nearly 1,000 speciality shops, covering both the cities and countryside of China. It also has branches or offices in U.S., U. K., Germany, Japan, Russia, Canada, and Middle East. It has been also building the manufacturing site in Vietnam between the researcher's first and second round of data collection. This sub-group of B emphasises R & D. It possesses an R & D centre of the National Standard, an advanced lab, a quality examination centre, and a Post-doctorate centre. It has established long-term cooperation relationships with a number of famous Chinese universities. It has participated important setting-up or revising activities for laws and regulations of China's electronic household appliances' industry. Due to its continuous input in innovation and research, this sub-group's technology has remained at the top level in China and even in the world. Company B also has another second level sub-group of mechanical electronic products. It supplies the whole group company's purchases, logistics, products' stock management, import and export operations, products' re-design and improvements, operation on futures and other capital investment activities, and so on. This sub-group coordinates and strengthens the whole production chain for Company B. It has nearly 20,000 employees. Branch or subsidiary companies under this sub-group produce products with a number of famous domestic brands. The logistic company owned by this sub-group is an AAAA Chinese comprehensive logistic enterprise, with a credit level of AAA, and is one of China's Top 10 logistic companies in 2008. Group Company B also owns a property development sub-group company. It employs 1,000 employees, and its businesses include property development, golf clubs, restaurants, education facilities, green-garden, architecture, and so on.

Concerning Company B's ownership, founding history, and corporate governance changes, Company B was originally founded by 24 people from Shun De as a street factory in 1968. It produced plastic goods. In 1980, Company B started producing electronic fans and entered the electronic household appliances industry. In 1985, Company B entered the electronic air-conditioner market. In 1992, the Group Company B was established and the inner share-hold reform began. In 1993, B1 Ltd. (the core company of B Group) register to the Shenzhen stock market, and this made B1 one of the first listed Chinese companies with township ownership. In 1997, Company B started organisational change towards a business/product department based structure, which set up a solid foundation for a series of deeper inner reforms. It is around this period, Company B initiated budgetary reform. In 1999, the whole group company initiated an overall employee shareholding system. This reform separated the shareholding and distributing systems of Company B and linked the losses and gains all employees closely with the losses and gains of the corporation. In 2001 after China joined into WTO, B's senior management implemented MBO, and Company B transformed from a town owned enterprise (governmental business) to a private enterprise (nongovernmental business). In the year of 2003, Company B started merging coach companies and entered coach production industry. In 2006, Company B hired an international consulting firm to transform its structure to diminish any operation units or functions overlapping with its existing two-level platform (group and sub-group) structure. Company B also started considering having its individual business underneath the sub-group companies listed in the stock market. In 2007, Company B received China's central government's permission in selling 10% stock shares of B1 to an American company. This indicated that Company B deepened its capital investment activities. In August 2010, the chief founder of Company B resigned his position as the chairman of B1's board of shareholders. It is the first company among Chinese private companies to hand the total power over a professional CEO.

Along with its own development, Company B has continuously contributed to the local economic development. From the year of 1990 to the year of 2004, Company B had paid the tax of over 3.5 billion RMB in total. Company B donated over 5 billion RMB in total for social welfare and education. From 2002 to 2010, Company B had paid tax of 15 billion RMB. Also, Company B has contributed to the development of relevant social industries and employment. Until February 2010, Group Company B has increased donation or contribution for social welfare and education affairs for a total amount over 200 million RMB.

In spite of its healthy, steady, and fast development within the last decades, Company B introduced budgetary reform in 1996 due to the pressure of a ‘watershed’ period in the industry, and has carried on the reformation on all activities on the deeper level. Concerned about the future, Company B will, based on its electronic household appliances business, pursue the strategy of ‘professional, scale beneficial and total cost advance (according to Company B’s official website’, and develop itself into the largest manufacturing company for “white” electronic household appliances in China. Meanwhile, Company B will develop at least two new supporting industries through buying and merging. Company B also wants to become the leading company in these new supporting industries.

### ***3.6 Data Collection Methods***

Anglo-Saxon accounting systems used by the United States and Britain at present is a relatively advanced and complete system developed under their own political, economic, and cultural environment during the last few decades. China’s history and societal environment is obviously different (refers to chapter 4 for details). Simple linear model and huge-scale investigation may be useful to investigate some part of the truth but it is not enough to draw



the whole picture. Meanwhile, many Chinese industries are still developing through intense competitions. While the industry is not necessarily standardized and the companies are not in a stable situation, generalization based on the surveys of various companies may not be applicable to a certain number of other companies. In addition, the pioneering stage of budgetary control study in China leads to in-depth analysis of specific companies for the better understanding. For all of these reasons, field observations and semi-structured interviews based on interpretivism and constructivism can enable us to understand the budgetary control system. Furthermore, in spite of the limitations of the contingency theory approach (for the limitation, refers to the pilot study section in this chapter, and the contingency theory approach section in the literature review chapter), the existing management accounting theories adopting a contingency theory approach examines different aspects of organizational management accounting changes (including budgetary changes). Hence, it is used in this study to theoretically support the choice of qualified companies, the design of question checklists, and the process of coding and analyzing data. Archival (including both quantitative and qualitative) analysis also strengthens data resources of this research project. Hence, a flexible combination of different data collection methods and theories are adopted for this study, within a qualitative research design based on in-depth longitudinal case study.

### **Phases (Time Plans) of Data Collection**

First and second hand data concerning Company A and Company B were collected in 2004. Based on the literature review and data, these two companies were both qualified for this research project. Then the researcher tried to contact these two companies for the pilot study to gain initial understanding about 'what is the reality'. As the methodological adjustment has been explained in the section 3.3 of the pilot study, once the researcher entered Company A

for the pilot study (refer to Appendix II for originally planned proposal of questionnaire), this research project started a three months' first round data collection (field work) in Company A from November 2004 to March 2005 (refer to Appendix II for application of in-depth data collection). Due to the access limitation, a three-hour interview with Vice Chief Inspector, Department of Financial Management of Company B was completed. After further study and preparation, the second round data collection was carried out from October 2006 to March 2007 when the researcher conducted interviews, observations, document collections in both companies. Between the two rounds of data collection and after the completion of the data collection, the researcher has kept refining the literature and methodology, consulting Western and Chinese scholars and practitioners, and informally interviewing Chinese and Western professionals concerning the research topic to gain further understanding of the issue. The researcher kept in touch with two case study companies for follow up their development and changes, asking for feedbacks (refer to figure 3.8 underneath, for the time phases and different data collecting methods of this study).

*Figure 3.8 Time phases and different data collecting methods of this study:*

## Two qualitative, longitudinal, in-depth case studies To observe and understand budgetary changes over time

- 3 one-to-two interviews / discussions
- 68 sets of detailed project notes from observation
- Documentary Analysis
- 31 one-to-one interviews (1 to 3 hours each)
- Nvivo 8.0

Gaining access and accessing qualified cases

First round of data collection:  
Nov. 2004 –  
March, 2005

Second round of data collection:  
Oct 2005 –  
March, 2007

### Semi-structured Interviews

According to Riley et al. (2000: p. 129), interview ‘represent(s) the qualitative approach’ as it provides a ‘richness’ of data. They argue that ‘the case for interviewing rests on two conditions’: ‘First, that the researcher is seeking, at the level of “meaning”, “feeling” and “value”, insight into how individuals or groups think about their world and how they construct the “reality” of that world. Second, if the researcher is uncertain regarding how the target population actually thinks about the topic under examination – if it is not known how they conceptualise the area, how sure they are of it, or how much they actually know about it, then the interview serves its purpose of giving explanatory insights’ (Riley et al., 2000). The constructive and interpretive underpinnings of this study satisfy the first condition argued by

Riley et al. (2000). And as it has been discussed in the section 3.4.1 of qualitative research strategy, due to the exploratory stage of Chinese practitioners' understanding towards Western management accounting (budgeting) systems, and due to the lack of empirical experiences about budgetary system in Chinese companies, the second condition argued by Riley et al. (2000) is satisfied.

Bryman (2001: p. 110) examines different types of interviews. According to the research reality, the flexibility created by in-depth and semi-structured interviews allow actors to hear their own voices in this exploratory study. It adjusts researchers' questions to the specific interview circumstances, and provides basic foundations and structures to lead the direction. It is the main reason why this methodology is adopted for this research project. For 'semi-structured interview' which Bryman (2001) considers as 'a term that covers a wide range of instances. It typically refers to a context in which the interviewer has a series of questions that are in the general form of an interview schedule but is able to vary the sequence of questions. The questions are frequently somewhat more general in their frame of reference from that typically found in a structured interview schedule. Also, the interviewer usually has some latitude to ask further questions in response to what are seen as significant replies'. Bryman (2001) explains that in-depth interview 'sometimes refers to an unstructured interview but more often refers to both semi-structured and unstructured interviewing'. Here, it is also used to refer to the feature of content and time spent for interviews of this research project.

This study has completed 31 in-depth semi-structured interviews conducted one to one, each ranging from one to three hours. The interviewees are employees in Company A and Company B of different education backgrounds (high school to graduates, non-financial/

accounting background to financial/ accounting background), experiences (manufacturing, managing, accounting/ finance, marketing, with previous working experiences in organizations with different ownerships), positions (secretaries, divisional managers, general managers, accountants, chief financial managers), and ethnic origins (basically classified into ‘transplants’ – people who are moved from other parts of China and ‘native-born’ – people who are born and bred in Shun De). Different background of interviewees guarantees the ‘richness’ of interview data covering different perspectives. Interviewing one interviewee each time allows them to be at a relatively more relaxed condition, trusting atmosphere to express their real feelings and thoughts. Through the face to face contact, the researcher can also be sensitive to body languages, emotions, and to react more promptly to different interview situations. Box 3.1 illustrates an example of this study’s interview. It is with Mr Ch in Company after visiting K. J. Ltd., thus questions were adjusted according to what the researcher had seen during the tour. This serves as an example to show that in-depth, real opinions of the interviewee are gained through face to face interviews.

***Box 3.1 An Example for In-depth, Semi-Structured Interview of This Study-- Interviewing Mr. Ch in Company A, 2006:***

## Interview with Mr. Ch (production manager) in K.J. Ltd., Company A, Nov. 2006

K.J. used to be controlled by A and other companies. Recently, A bought the shares of other shareholders and independently owned K.J.. So K.J. is a subsidiary company of A Group now. It also has sales relationship with A1 Ltd. **H took me there, and let Mr. Ch show me around while H was attending a meeting there. I interviewed Ch after visiting manufacturing sites. K.J. is located in a separated area from the headquarters. The factories are new and not well furnished. But there are enough machines for the workers to produce goods to meet the order. Photos could be referred to "photos of A1".**

The researcher: Hello, Mr. Ch. Thank you for showing me around the factories. Thank you! May I start an interview with you if you have some time at the moment?

Ch: Sure. I'm new to this company. But I'm happy to have a chat with you.

The researcher: When did you begin to work for A1?

Ch: In 2002.

The researcher: Where did you work before that?

Ch: Zhao Qing city in Canton province.

The researcher: What is the company you used to work for?

Ch: I used to work for a SOE (state owned enterprise), then in Yilong in Longjiang, then A1. I started as a worker in the producing line.

The researcher: You look so young as a manager, do you mind...

Chen: 28 (years old).

The researcher: You've been promoted very quickly.

Ch: Yes, almost one hierarchical level per year.

The researcher: What's your major in College?

Ch: Modeling. I was graduated from a junior College.

The researcher: Do you find any difference between SOE and private owned companies?

Ch: Very different. Very.

The researcher: How?

Ch: No matter you are a good employee or a bad one, it is almost the same in SOE. On the contrary, private bosses pay attention to your ability and you can be promoted by your efforts. The better you do in your work, the more you are paid.

The researcher: Why it's the same in the SOE?

Ch: The leaders only eat, drink and play. Nobody pays attention to the operation and management. Somebody like me can never be promoted I could only live my routine without further expectations-- going to work, and coming back home on time.

The researcher: We've visited the factories of K.J... Could you please describe the procedures of manufacturing for me? Since this place is not as noisy as in the factories we visited just now.

Ch: There are workshops of horizontal axle, workshops of machinery processing (patterns and engravings), workshops of flushing and pressing (shaping), workshops of welding and connecting, and workshops of packaging.

The researcher: To produce electronic blender?

Ch: Yes.

The researcher: How many employees K.J. has now?

Ch: Around over 200 in total. The number will be doubled next year. There is no detailed statistics about every department.

The researcher: Why?

Ch: We (Company A) just bought it in. Here used to be a very simple workshop. Next year we will put in three to four million RMB for the machines in the factory. So we need more employees.

*(Page 2, Box 3.1)*

The researcher: What about the monthly payments for the employees at the moment?

Ch: A class monitor gets 1,700.0 RMB per month, and a worker gets 1,200.0 to 1,300.0 RMB per month. It also depends on the type of work and the season. For the packing department, the salaries are lower. While for the welding department, the salaries are higher. And during busy seasons, the salaries are higher.

The researcher: In spite of getting more employees and better machines, what else would you do? For example, how do you improve management? I asked about standard producing capacity just now, in the factory, do you remember?

Ch: For example, after taking it over and installing new product-lines, we will test standard producing capacity. If we test it to be 10 pieces per minute, then it will be 600 pieces per hour and 4,800 pieces per 8 hours. With a discount rate of 80%, it will be 3,840 pieces per 8 hours. Based on these, we will distribute tasks per day. Extra performance will be rewarded by piece.

The researcher: What about extra working time?

Ch: Normally workers work 2 hours extra per day. They are rewarded by piece as well.

The researcher: Do you budget in K.J.?

Ch: I'm in charge of it. Just after I came to this subsidiary recently, the first big thing for me is to do the budgets.

The researcher: Do you think it is necessary?

Ch: Being a person, you need plans and goals. It's the same with the company. Companies need it.

The researcher: Do you get bored by detailed budgets?

Ch: No. It's a must. You have to separate and detailing the items. If you want to earn 100,000,000.0 RMB, you have to know when it can come from. Also, if you want to spend money, you should have a standard as well. Once the expense exceeds the standard, you have to control it.

The researcher: How do you do the budgets?

*(Page 3, Box 3.1)*



Ch: Then annual budget is based on the budget of the previous year, together with the existing customers' orders of the next year.

The researcher: Are there any problems about the budget or other things in general?

Ch: Company A is basically much more practical than SOEs. However, there are also some quotas which are unfair. For example, for the quotas of producing quantity, it's the marketing department which accepts the orders from the customers. We basically can't interfere with it. And we can only finish what we have in hands.

Sometimes, we go to talk with customer managers to see whether they need us to do more work to meet orders. We also actively go to ask branch companies to permit us to make new models and produce products, not only produce egg beaters.

The researcher: What do you mean by go to ask branch companies to permit K.J. to produce some other products?

Ch: The branch companies put parts of products together. Then upload them in the vehicles, and then send the goods out. Factories at the same level as ours compete for tasks, and the ones with better technology and cheaper price win.

The researcher: What are you going to do for K.J. in 2007?

Ch: We have to advertise for more employees, change security guards, and install CCTV.

The researcher: CCTV for surveillance?

Ch: Yes. It's more psychological than practical.

We will not adjust the total budgetary objective. We will give rewards or punishment after every three months. I have to set up new documents, or develop existing ones to guarantee producing capacity and to improve budgets.

H came out and I thanked Ch and had to leave.

*(Page 4, Box 3.1)*

As Riley et al. (2000) suggested, ‘as much of the data generated by interviews cannot be anticipated’, ‘it actually requires’ ‘planning and forethought’. Therefore, when adopting interviews for this research project, not only previous literature is used to design a semi-flexible infrastructure for interview questions (refer to Index III for the major interview questions), but also the researcher has been sensitive towards adjusting interviews according to interviewees’ situation, answers, attitudes, previous interviewing or observing experiences (refer to Box 3.1). In other words, in-depth interview conducted during this study is also a continuous learning process. They are adjusted according to finished interviews and observations, and also give hints to forthcoming interviews and observations. For one-to-two interviews or discussions, refers to the later paragraphs of this current section.

### **Field Work**

According to Bogdewic (1992), ‘participant observation has its roots in social and cultural anthropology. The origin of this unique way of collecting data is attributed generally to Malinowski’s (1961) fieldwork among the Trobriand Islanders’. ‘The term participant observation can be traced to Lindemann (1924, quoted in Bogdewic, 1992), who distinguishes objective observers who, primarily through the use of interviewing, approach a culture from the outside, from participant observers who use observation to research a culture from within (Friedrich & Ludtke, 1974, quoted in Bogdewic, 1992).’ The method ‘characterized by a prolonged period of intense social interaction between the researcher and the subjects, in the milieu of the latter, during which time data, in the form of field notes, are unobtrusively and systematically collected’ (Bogdan, 1972, quoted in Bogdewic, 1992).

The reason of selecting participant observation as a research method, according to Bogdewic (1992), ‘relates to the significance of the cultural context in answering the research questions. If the focus of interest is how the activities and interactions of a setting give meaning to certain behaviours or beliefs, participant observation is the method of choice. The inhabitants of any organization or group are influenced by assumptions that they take for granted. These assumptions reflect the unique culture of a given organization. Rather than relying on the perceptions of inhabitants, participant observation affords the researcher direct access to these assumptions’. Talking about ‘taken for granted assumptions’, as it’s been discussed in the literature review chapter of this thesis, management accounting studies adopting the ‘Institutional Theory Framework’ developed by Scapens, et al., provides empirical experiences in discovering and understanding ‘taken for granted assumptions’ to explain success in or failure of management accounting changes of organizations.

Hence, the use of participant observation as a research method is coherent with the ‘significance of the cultural context in answering the research questions’ in this research project. It can benefit the study because participant observation’s advantages and specific adaptability in certain circumstances (refer to the data analysis chapters). In addition, it can create opportunities to discover the role of ‘taken for granted assumptions’ in organizations’ management accounting changes.

In this study, the researcher stayed ‘in the field’ for two round participant observation (field work). For the one year of staying in the field, the researcher edited the participant observations in the studied companies into 68 ‘thick’ ‘project notes’ (refer to figure 3. 8 for the overview of the project notes in Nvivo database). They give this study valuable resource

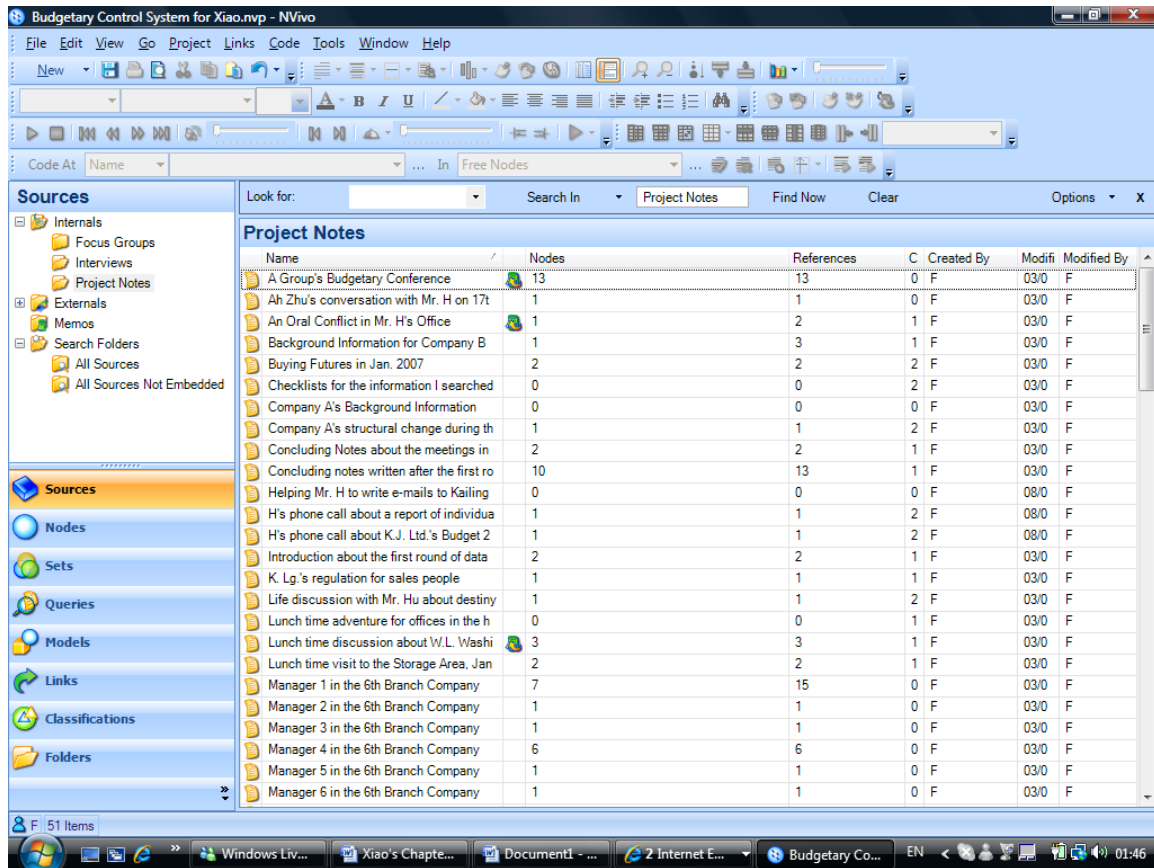
not only about management accounting practices, but also about the embedded culture of this study.

Participant observations allow the researcher to gain trust from interviewees for deeper conversations. Visiting different sites and witnessing different events (for example, the researcher prolonged the second round data collection to attend Company A's budgetary conference in 2007, which had not been known to the researcher), observing differences between employees' words and behaviours, and collecting sensitive data which are completely hidden from the public. Picture 3.3 underneath is taken during the field work in Company A. Box 3.2 serves as an example of participant observation (field work). Without being in the field, the researcher would not have had the opportunity to observe the whole process of the business deal between Company A and a rival company. Although this example is not directly relevant with budgetary system, it provides deep information about industry background, enables the researcher to meet Mr. Tan for further interviews concerning budgetary system in Company A, and reveals company politics within Company A. Many other examples of important data can only be gained through participant observation are discussed in the following chapters of data analysis and discussion. Techniques and outcomes about this relevantly passive but fruitful research method hence are not repeatedly listed in the current section.

*Picture 3.3 A Photo Taken During Field Work in Company A, Year of 2007:*



**Figure 3.8 An Overview of ‘Project Notes’ Gained by Participant Observation, Recorded in NVivo database:**



**Box 3.2 An Example of Participant Observation, Visiting TNC with Senior Managers in Company A, Jan. 2007:**

## Visiting TNC Ltd. in Zhongshan City, Jan. 2007

I asked Mr. H to allow me to go with him, to see how he deals with businesses. On the 8 January 2007, H, Tan (the 9th general manager of K.R. Subsidiary Ltd.), Lv (who used to be an engineer of small electronic household appliances in Galanz Ltd.), "Y"(the engineer's assistant and a quality examiner), and the driver (arranged by one of the board directors, Mr. G), and I went together to TNC Ltd. in Zhong Shan City to by modes, which worth 100,000.0 RMB.TNC can be referred to at [www.chinatender.com](http://www.chinatender.com).

I. We met the CEO at the court yard. Then we visited the producing lines of TNC with him. It looked more mechanised than A's factories. The halls were broad, bright, and tidy. H asked the quality inspector to check the products.

II. We then were invited to see the board director of TNC in his office.

TNC's board director ("T"): Have you seen our production lines?

H: Yes.

T: What do you think about it?

H: We think that it is very good. Better than ours.

T: We started building it from the year of 2004. We have invested 4 million to 5 million RMB in it.

H laughed together with general manager Tan, and then H told T: The K.R. Subsidiary Ltd. of A1 Group started from July to August, 2007. Our board directors only invested 3 million RMB into it. The general managers have frequently been changed. This general manager, Mr. Tan, is already the 9th one. Actually our board directors should learn from TNC.

T: Only 3 million RMB? That's not enough! Your boss is too stingy.

Then they started bargaining, between 120,000.0 RMB to 140,000.0 RMB. At last they agreed at the price of 130,000.0 RMB, on the conditions that if the payment can be received within 20 minutes, by the "big amount payment service" of the bank, then the goods can immediately be uploaded to the truck. About the price, T said that the price is not only about the costs of the materials. To improve the quality of the products and reduce the costs, it includes a lot of perspectives. H then made urgent calls to A's secretary, accountant, and the bank to guarantee the payment through bank within 20 minutes. This efficiency represents A's credit. To make the deal, they signed the contract.

III. Going back to the CEO office, with TNC's CEO:

He showed us the exhibition board of the switches -- the fourth generation of steel switch. Then we sat down with him in his office. H and his people exchanged experiences with him. Both of Tan from Company A and the CEO from TNC have the background of marketing.

The CEO: After being the general manager, I found out that I should change from my partial understanding of the company to a more wholesome grasp of the business. There is a relatively high rate of profit in our industry of electrician. For different products, the profit rate ranges from 30% to 60%. In average, the profit rate is around 40%. It's difficult to enter the market, but afterwards, it becomes relatively stable. Now we put 18% of our outlay in marketing. You need strong willpower to manage an enterprise. The consistency is needed.

Tan from Company A: Company A used to do stupid things without any reasonable thinking. For example, A set up a project without any market investigation. As a consequence, the bad account reaches as high as 3 million RMB. Thus, the first thing I do after I became the general manager was to return the loans to rebuild our credit.

CEO from TNC: Oh, in this case, I suggest you to change the name of your company to make things easier. Also, your company should hide the relationship with the A Group before your company succeeds.

After the deal was successfully done, we left TNC and came back to Company A.

IV. On the way back to A.

In the car, Tan started telling H that, Tan has prepared a copy of contract to sign with TNC. However, TNC's board director also has prepared a copy of contract to sign with. TNC's CEO took TNC's copy of contract out first and pushed Tan to sign on it.

Tan read TNC's copy of contract and noticed a mistake TNC had made. TNC's contract said, after selling the mode products to A, if Company A starts producing similar kinds of modes which invade TNC's intellectual right, TNC has to pay for all the relevant losses TNC may suffer from it. So Tan felt very happy to listen to TNC's CEO, and signed on TNC's copy of contract.

I was scared by this story. They seemed to chat with each other in such a friendly way just now. I could have never known that there were so many things going on, if Tan didn't tell us the story. No wonder people say that, the business world is a battlefield.

Everybody laughed. H was very happy.

*(Page 2 of Box 3.2)*

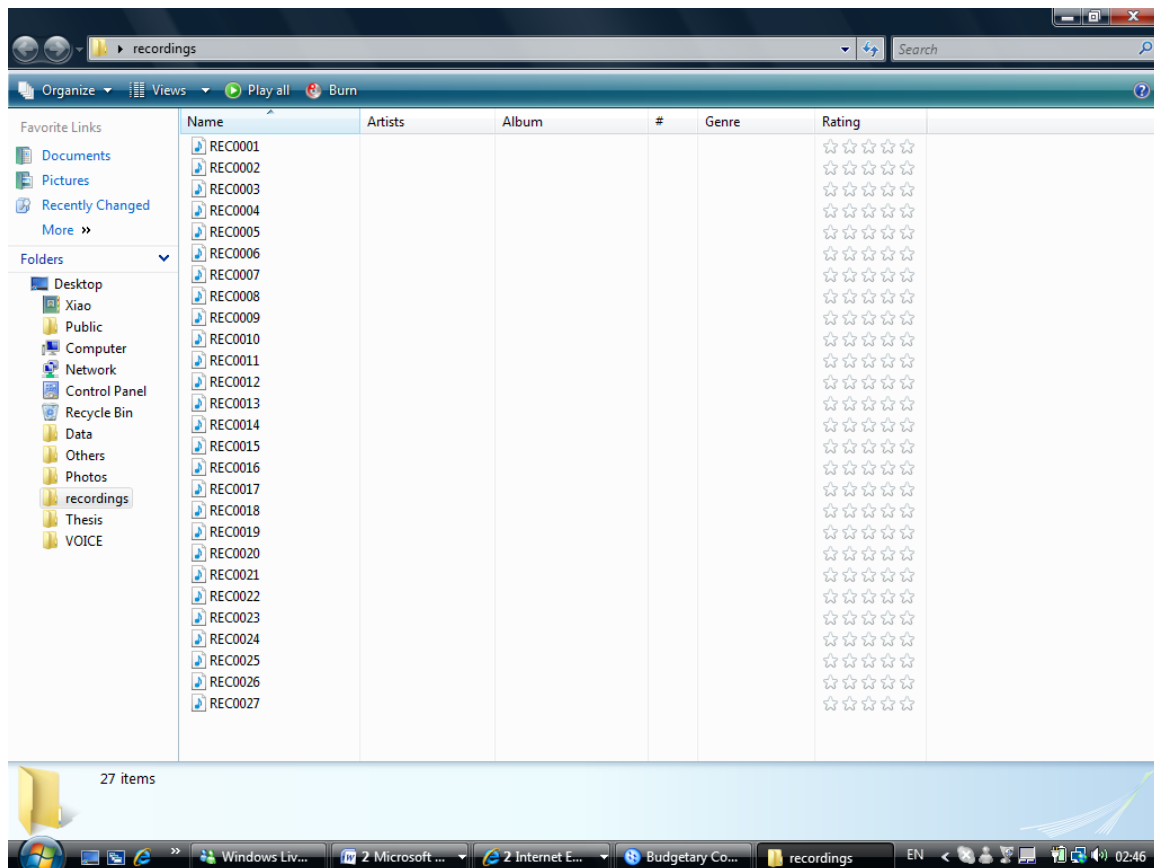


One-to-two interviews/discussions allow the researcher to observe and analyse what the interviewees discuss and how the interviewees interact on a more subtle and sophisticated level. While interactions can benefit the research project, it also has the risk that interviewees may not be as frank as in one to one interview or anonymous questionnaires.

During the field work, the researcher frequently encouraged active ‘following up’ discussions, with a group of interviewees after the interesting events ‘accidentally’ happened. These discussions are mostly categorised into ‘project notes’ because they were not planned beforehand. Also, during some other participant observations, the researcher was sometimes invited to join in conversations, and these are also hardly to be classified as organized focus group interviews. Moreover, due to the research reality that limits the researchers’ autonomy in organising focus group interviews, this study’s data only contains three one-to-two interviews. Although limited by quantity, they all provide very important information directly relevant with understanding the studied companies’ management accounting activities related to budgeting. The fact that the general manager and the chief accountant of Company A’s 6<sup>th</sup> Branch Company provided similar opinions during the interview of November 2004, reflects their shared limitations in understanding the 6<sup>th</sup> Branch Company situation in budgetary reform, which directly led to its failure in budgeting for the year of 2005 (refer to chapter 6). The conflicts between the new general manager for Company A’s 6<sup>th</sup> Branch Company and Mr. H., in 2007 not only reflects the new manager’s understanding towards budgeting, but also reveals conflicting relationships between different political groups in Company A (refer to chapter 6). Another one-to-two interview with Mr. H and a former head of local Bureau of auditing reflects the conflicts between macro regulations and micro practices (refer to chapter 6). Hence, one-to-two interviews add to this study’s data as another research method.

Although video recording was not permitted during the first round of data collection, due to the increasing trust gained over time, important events in one-to-one semi-structured interviews, participant observations and one-to-two interviews implemented during the second round data collection were recorded in 27 video documents, whose total length is up to 16 hours and 8 minutes (refer to the figure 3.9). Due to the confidentiality reasons, it is not attached in this thesis. While note taking and recording are both assisting tools for research methods mentioned above, the researcher was sensitive enough to balance between informing the existence of assisting tools, without affecting the quality of data by exerting recording or noting devices.

**Figure 3.9 A List of Recordings during This Study’s Data Collection:**



**Document Analysis**

With permission, this study has collected Company A's budgets (group company, subsidiary companies and branch companies) from 2004 to 2007; Company A's internal budgetary conference records; Company A's rules, regulations, bulletin board information; both companies' production, sales, profits information'; both companies' organizational structure charts; and newspaper or books concerning the research site or the industry (including ones directly relevant with the two case study companies). The researcher was allowed to read both companies performance measurement indexes (rules) without being permitted to reveal the specific figures. These documents strengthen the quality/ validity of data and also provide valuable insights into the research topic.

Due to the issue of confidentiality, the original copies and photos of most of these documents are not attached in this thesis. The availability and validity of these documents can be testified by the supervising team and department together with whom the researcher carries on this study. Specific documents which are relevant with the research topic will be discussed in later chapters, technically choosing, censoring or narrating information in a way that would not reveal confidential information while maintaining the fundamental quality and nature of findings.

### **Questionnaires**

As it has been mentioned in the section 3.3 of the pilot study, the originally planned proposal of questionnaires (refer to Appendix II for details) were based on the contingency framework (refers to the literature review chapter). Such a detailed questionnaire was difficult to implement in practice, and likely to be insufficient to explain the research context of this project. Due to the adjustment of methodology (refer to the section 3.3), a longitudinal case study is adopted based mainly on qualitative data obtained through the field observation,

semi-structured/ in depth interviews, and documental analysis (while some of this data contain both qualitative and quantitative content, they still appeal to data analysis which is qualitative by nature, refer to later paragraphs of this current section for details). The researcher also changed to a different questionnaire (refer to Appendix IV) during the second round of data collection. The heyday of contingency theory was over well before the mid-1990s. Nevertheless, it provides different presumptions to help the researcher to examine different perspectives of the case studied companies' management accounting changes relevant with budgeting. Hence, it still contributes to parts of the revised questionnaires' content. Moreover, the revised questionnaire adopts an interpretive or constructive approach by designing questions which may help to gain insights from the perspectives of the 'actors'. Ontologically, this is different from the original contingency theory approach-based questionnaires. And this change made the revised questionnaire coherent with this study's methodology at the deeper epistemological and ontological level. Secondly, because of cultural reasons, it sometimes is not socially proper to ask the interviewees' age, academic background, previous working experience, salary or position. Hence, the researcher also used anonymous questionnaire to collect personal information which is relevant with 'contributes' of certain budgetary intervening factors. Although questionnaire is used under some circumstances of the second round data collection, it served mostly as a convenient way to collect information when time or culture do not allow it to happen within the short acquaintance. It did not apply to all the interviewees either. When time and access were allowed, interviews or observations without questionnaires were used as the main data collection methods. Hence, questionnaires here serve mainly as a substitute for a quick interview. This study is no way a questionnaire study as the latter is only an assisting and implementing device for interviews. Nevertheless, for the purpose of coherence, interviews and observations during the second round data collection still can be categorised as the same

block of research questions reflected on the questionnaires. Hence, differing in approaches and depth, they are based on the same theoretical foundations and assumptions.

### **The Issue of ‘Triangulation’ and Mixed Methods Research**

‘Triangulation’ in methodology means ‘using more than one method or source of data in the study of social phenomena’, and ‘triangulation can operate within and across research strategies’ (Bryman, 2001: p. 274). Denzin (1970: p. 310, quoted in Bryman, 2001: p. 274). It employs this term as an approach which uses ‘multiple observers, theoretical perspectives, sources of data, and methodologies’. Bryman (2001) explained that the emphasis has tended to be on methods or investigation and sources of data. According to Webb et al. (1966, discussed in Bryman, 2001: p. 274). Defined by Creswell and Clark (2007: p. 5), ‘mixed methods is a research design with philosophical assumptions as well as methods of inquiry. As a methodology, it involves philosophical assumptions that guide the direction of the collection and analysis of data and the mixture of qualitative and quantitative approaches in many phases in the research process. As a method, it focuses on collecting, analysing, and mixing both quantitative and qualitative data in a single study or series of studies. Its central premise is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either approach alone’.

From above explanations, it can be concluded that ‘triangulation’ or ‘mixed methods’ can refer to ‘mixing’ different perspectives for providing a more comprehensive understanding of research problems. Philosophically, this research project adopts a qualitative methodology based on interpretive and constructive sociology which aims at investigating ‘multiple realities’ interpreted by different ‘actors’ to understand the nature of budgetary practices, procedure, and changes. However, within the qualitative strategy, this study combines five

different research methods to collect data. Combining multiple data collection methods in this study is to gain more comprehensive and ‘true’ data by extensively absorbing information and observing different ‘actors’ opinions/ behaviours. Also, as each research method may have pros and cons, combining multiple ones may let them implement with each other. Although this research is not quantitative by nature, the data collected in this study includes quantitative figures (a distinction between ‘a quantitative research strategy’ and ‘data with quantified information’ has to be noted). As qualitative research strategy has the danger of being ‘subjective’ due to its ‘soft’ nature, using figures to assist demonstrating findings fits the content of budgeting and strengthens the validity of data.

### **Explanations about ‘unbalanced’ informants**

It will be found in later chapters of data analysis in this thesis that, in the case studies, much of the key evidence appears to be provided by relatively few informants, and the level of detail appears far greater for Company A than for Company B.

There exist differences between the accesses into two case study companies. Firstly, due to personal connections and the ultimate power concerning financial and accounting issues (including the building-up and maintaining of budgetary systems) Mr. H processed in Company A at the time when the researcher started data collection, the researcher was allowed to observe the field from the beginning. However, the key contact in Company B, Mr. C., just recently came into a key financial position when the first round of data collection started. Yet the researcher was not allowed to do field work in Company B during the first round of data collection. This can explain the major reason for the ‘unbalanced’ information between the two case study companies, especially during the first round of data collection. Two years later when the second round of data collection started, thanks to the increasing

mutual trust and Mr. C's further promotion in company B, the researcher was allowed to do field observation in Mr. C's own office and the adjacent accounting and finance office of the Group Company B, to enter different branches, and to interview officers in different departments. However, since Company B is a more formal institution than Company A, the interviews and fieldwork in Company B could be more rigid in space, in time, and in the form. Nevertheless, since employees in Company B are in general far better educated than employees in Company A and they are more experienced in the budgetary reform, and hence are more capable to understand research questions and reveal information concerning budgeting, it is not fair to comment that data gathered in Company B is less valuable than data gathered in Company A.

Furthermore, since the researcher collected field observation data only in Company A during the first round of data collection, it is more coherent to compare the field data between the first round and the second round of data collection in Company A. This further contributes to the unbalanced information as well as data analysis between Company A and Company B. For example, the researcher witnessed budgetary meetings attended by the General Manager, Chief accountant and middle level managers in the 6<sup>th</sup> Branch Company of A1 during the first round data collection. Hence, to show coherence in data analysis and to be able to understand changes, the researcher collected data in the 6<sup>th</sup> Branch Company of A1 during the second round of data collection. However, this does not mean that the analysis about Company B's changes over time concerning budgetary was unimportant or impossible. Second hand information gained from interviewees' reviews still allowed the researcher to observe Company B's changes indirectly, and to compare its changes with those of Company A.

Secondly, when the researcher started the first round of data collection, Company A happened to start its budgetary reform at that very point of time. Therefore, the researcher was lucky to witness the very moments in the field when Company A's was transforming from a company with non-budgetary practices towards a Group Company with an overall budgetary system. The researcher witnessed the very misunderstandings, debates, arguments, as well as efforts, confusions, punishments/ failures, and achievements at this significant turning point of Company A. It then became natural that Company A did provide perhaps richer data about budgetary reform, simply due to this coincidence in timing. While Company B also had experienced or was experiencing misunderstanding and improvements about budgeting, since it started its budgetary reform nearly 10 years before Company A, the researcher gained most information about them through Company B's employees' recount of the company's history, and review of the budgeting practices. Although Company B provided data are less in quantity and less vivid in quality, its more established level of budgetary system and its interviewees' review about budgetary reform history helped the researcher to use this data as a benchmark and to reflect on the level Company A's budgetary reform and to foresee Company A's future in budgetary reform.

There exist differences among accesses into different informants. Concerning specific interviewees, although the researcher included diversities in gender, education background, working experiences, position hierarchy, and departments among interviewees or subjects for field observation, it is merely a matter of fact that certain (often a limited few) employees (the researcher terms them as 'key informants') in case study companies possess a much larger amount of information concerning budgeting than the rest. This may be due to the key informants' positions which allow them to have more relevant information and Chinese hierarchical culture (refer to chapter 4). This is also caused by the other informants' lack of



knowledge and understanding of budgeting. Even when they were asked or observed, they just did not know what to say about budgeting. Naturally, this may lead the data analysis to focus on a limited few employees' words or behaviours. This does not mean that the researcher had limited data collecting process with only a few informants, and this does not imply that there are less informed informants' words and behaviours towards budgeting are not valuable at all. In many cases, they do have a voice, and they tell other stories to the researcher to reflect the whole research context from different angles. For example, even their lack of understanding and training of budgeting may imply the reason for budgetary failures or the future direction of budgetary development.

The research fully acknowledges any limitation arising from differential access.

The Appendix V. of this study includes a list summarizing a schedule of all interviews, indicating the (disguised) name of the interviewees, their companies, and their positions, together with time and subjects of the interviews. Details of the semi-structured interview schedules and information introducing the frequency of the use of the second questionnaire can also be developed in future stage of this study.

### ***3.7 Researcher's Role and Morality***

#### **Confidentiality Agreements**

Mr. H., Chief Financial Inspector of Company A, who permits the researcher to gain access into Company A for two rounds of field work and documental collection, orally guarantees that the researcher is allowed to use any relevant information gathered in Company A including revelation of the name of Company A. However, the collected data not only shows

positive achievements of Company A's budgetary (management accounting) systems, but also reveals problems in budgetary (management accounting) systems, production (for example, quality problem of certain parts of products), or managerial coordination (for example, problems exist due to the gap between installing two different systems – decentralised organisational structure and budgetary system). Although similar problems are likely to happen in some other companies in the same industry, revealing problems in Company A alone may attract potential readers' attention or attack to Company A's problems only, and thus it's unfair to Company A. Also data collected include sensitive issues (for example, company politics, adjustment of company accounts, conflicts between governmental regulations/ officers and company practitioners). Therefore, to protect Company A and to protect people in Company A who are relevant with sensitive issues, although the researcher is allowed to reveal the company's name, the researcher still decides to keep identity information confidential due to the researcher's conscience and professional morality.

Mr. Ch, the Chief Financial Director in Company B, accepted an in-depth interview in 2005 (which contributes to the first phase of data collection of this study), then two years later, allowed the researcher to conduct the field work (which contributes to the second phase of data collection of this study). Mr. Ch asked the researcher to conceal either the company's or his identity. Thus, alphabets are used to represent the two companies and people. Since this study aims at revealing and understanding the two case study companies' budgetary systems and this may help to understand the situation that other Chinese companies face, concealing these two companies' and interviewees' identity does not influence the quality and findings of this study. As there are many companies in the same industry, located in the same area, revealing the geographical location of the two case study companies does not bring a crucial

danger to them? Instead, it can help to illustrate the research context. Hence, it is introduced in earlier section of this chapter.

### **Handling Sensitive Topics and Issues**

As Lee (1995) pointed out, the phrase ‘sensitive topics’ is usually either used ‘as if it were self-explanatory’ (Lee, 1995), or ‘treated in a common-sense way without being defined’ (Lee and Renzetti, 1990, quoted in Lee, 1995). Yet, Sieber and Stanley (1988: p. 49, quoted in Lee, 1995: p. 3) define ‘socially sensitive research’ as ‘studies in which there are potential consequences or implications, either directly for the participants in the research or for the class of individuals represented by the research. For example, a study that examines the relative merits of day care for infants against full-time care by the mother can have broad social implications and thus can be considered socially sensitive. Similarly, studies aimed at examining the relation between gender and mathematical ability also have significant social implications’. About how to handle sensitive topics in research, Sieber and Stanley (1988, quoted in Lee, 1995: p. 16) observe that ‘some researchers have dealt with the problematic aspects of studying sensitive topics by opting out of researching such areas altogether’. This kind of approach ‘while personally convenient, is in fact an evasion of responsibility’, and the professional way of ‘dealing with the problems and issues raised by research on sensitive topics’ is that ‘the threats which research poses to research participants, to the researcher and to others need to be minimized, managed or mitigated, but without compromising the research itself or limiting the overall scope of research to address important features of contemporary society’.

During the in-depth interview and field observations, this study obtained sensitive data. Part of this sensitive data results into more comprehensive understanding of the environment and

the organisational definition of budgetary concepts, behaviours, and outcomes. Complete censorship by the researcher will have fundamental influences to the quality of this study. To be responsible to this research project which aims at revealing the accurate condition of the selected cases' budgetary systems, and also to be able to handle sensitive topics and data with professionalism, the researcher tries to remain sensitive and cautious while collecting, transcribing, and analysing data. As it has been mentioned in the above section about confidentiality, this study keeps the companies and employees anonymous, and it does not use any data which is not allowed for this thesis. The researcher will be careful about publishing issues in the future. According to Lee (1995), qualitative data analysis techniques appear more difficult in dealing with confidentiality issues compared with their quantitative counterparts. Hence, more detailed data (including video recordings, field notes, companies' documents, and data in NVivo software) are not attached in full to this thesis. However, certain data resources are quoted or used directly in this thesis with technical awareness towards the confidentiality issues.

### **Pros and Cons of Researcher's Identity Based on Field Work Experiences**

As the researcher being a young research student without full-time working experiences, most of the interviewees did not regard the researcher as a 'potential threat'. Instead, many of them were willing to teach some experiences to the researcher. And they often showed curiosity about and support for a Chinese student doing a research project in a foreign university. When a budgetary participant found out that this research project is relevant with their daily work, they were eager to complain to the 'third party' listener about their confusions, angers, anxieties, resistance and understandings towards changes. Such events

made most of the field experience smooth and pleasant, and it was a valuable mutual learning experience between the researcher and practitioners.

There are occasions when the researcher actively contributes to the case-study companies' practice, during data collection period. However, the researcher's occasional participation only happens when this participation is required for the purpose of effective communication between the researcher and the interviewees. Active participation is not the major practice during the researcher's interactions with case study companies' employees. A more common practice is that the researcher stayed 'lay-back' and neutral, and emphasised what the 'actors' are doing in their own daily 'normal' life. Hence, although the researcher may exchange opinions or offered helps to the case study companies' interviewees, the actions did not originate from the intention to 'influence' or 'help', but to forge the mutual 'trust' and communication, and to build up a friendly atmosphere. For example, at the beginning of the first round data collection, Mr. H was unhappy that he was the only one telling the researcher about his experiences while the researcher did not tell him about her study in management accounting abroad. Since then, the researcher not only listened to him, but also told my experience and life from time to time. During this time, we became good friends, and the field work became a valuable opportunity for the researcher to learn how to interact with people.

However, difficulties and problems also occurred during the field work. The unpredictable aspect of business caused anxiety, changes of the field work schedule, and continuous adjustment to changing circumstances. Interestingly, while most of interviewees had come to trust and accept the researcher more and more, few of them turned to be more distant and 'closed'. The researcher had to confront harsh or even hostile attitudes from the interviewees.

Instead of being disappointed or angry, the researcher tried to stay calm and professional, to observe the reasons for the changes. As it has been found out, most of these changes were due to changes of these people's own positions inside the companies, or their relationship with the key people who permitted and introduced the researcher to the case study companies. Hence the researcher needs to be sensitive about the pros and cons of relevant people's identities and interactions, to deduce bias. Box 3.3 serves as the example of problems the researcher encountered in the interviews, including the showcase of how the researcher perceived and reacted to the issue.

***Box 3.3 An Example about Difficulties Encountered in Field Experience (excerpted from 'Interview with the New General Manager in the 6<sup>th</sup> Branch Company, Company A, Jan., 2007):***

...

Anyway, I had d tried my best to carry on and finish the interview with the new general manager of the 6th Branch Company of A1 Ltd. His personality and personal relationship with Mr. H is totally different from his personal relationship Mr. L. That's why I was received with a friendly attitude during my field work in the Year of 2004, but their attitude was somewhat hostile during my field work in the Year of the 2007. I sensed that it was because that this new general manager felt insecure and frustrated when being interviewed by a PhD student, since he is a primary school graduate. Mr. H was also one of the causes of his hostile behavior. The general manager did not refuse to attend the interview, when H brought me to his office. But he subtly expressed his disapproval towards Mr. H by being hostile to me during the interview. I was his excuse. I felt very bad during the whole afternoon, not only because of being shouted at, but also because that I felt guilty to Mr. H. He tried to help me, but whatever the reasons were, I indirectly let him feel embarrassed.

When Mr. H drove me back that evening, I saw that he felt better. So I apologized to him about making him feel embarrassed because of my interview.

Mr. H: That's fine, Xiao. There've been changes in A Group. This person is not my lad. He has received very little education, but he is very keen in playing political games. He is very good at brining troubles and making small things larger. In any company or organization, you can find this type of people.

The Researcher: Sorry.

### **3.8 Data Analysis**

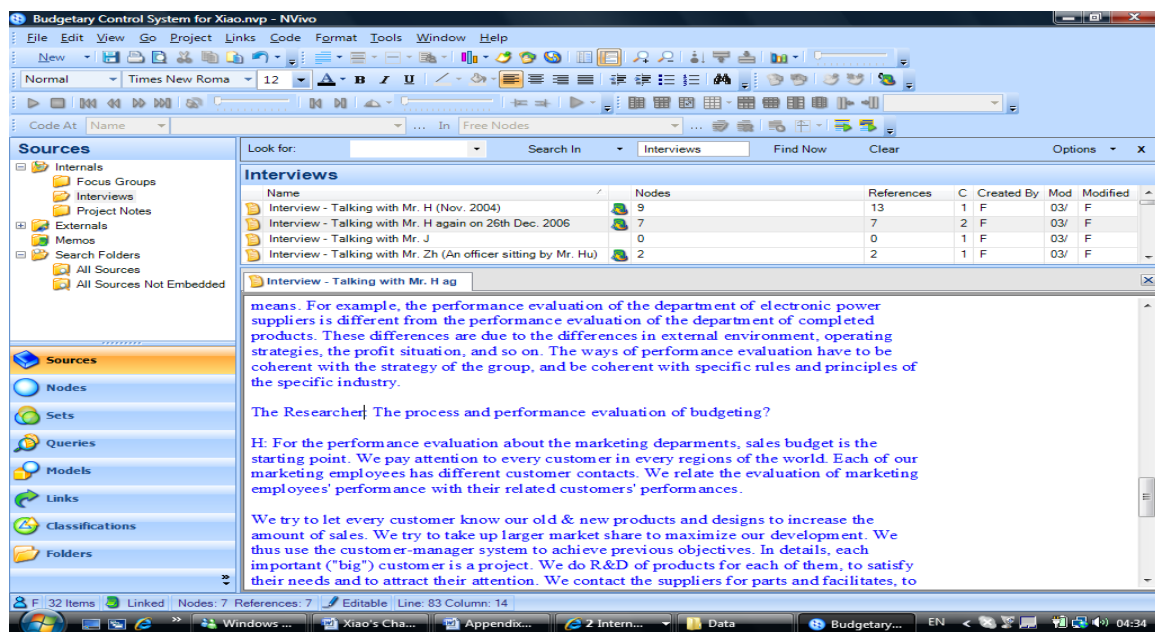
As quantitative researchers use SPSS for data analysis, 'qualitative computing has entered the mainstream. Tools provided by computer software to assist qualitative analysis have become acceptable' (Bazeley and Richards, 2000). Earlier, Miles and Weitzman (1994) had already reviewed some computer programs for qualitative data analysis. Besides, 'free mapping' can also be used for qualitative studies but it is difficult for the researcher to manage and analyze data while the quantity of qualitative data reaches a certain level. Hence, the data analysis method chosen for this study has to be able to handle a large amount of qualitative data, and also be able to satisfy the constructive, interpretive research underpinnings for the study whose circumstances may be different from the ones under which most existing studies in the same area have been conducted.

Nvivo, which is developed, manufactured and distributed by QSR International Pty. Ltd., has become one of the most popular qualitative software. It may not only be used for business studies, but also has been utilized by researchers of sociology, psychology, and anthropology. NVivo permits the users not only to store original records in full texts through project documents, but also can help to keep or organize thoughts and ideas through making nodes, setting up documents attributes or nodes attributes, adding memos, building up models, tables or data bites, editing codes, and find links among them or even with background information and literature library. Convenient texts editing tools make all of these possible. Tapes and other audio materials also can be used as resource materials in NVivo. The following paragraphs use some simple examples of the case studies of this research project to explain the basic logics of NVivo. In doing so, it shows that NVivo can satisfy research requirements stated in the above paragraph.



Once an NVivo project is created, you can create, edit, explore, or browse your documents and nodes. By definition, documents ‘are the data that you are analyzing in your study’, and could be ‘rich text files’ or ‘proxy representing files’ (A Step by Step Guide, 2005). For example, the full record of a conversation with Mr. H in Company A is input to NVivo as an independent document. The researcher then can review, edit or change this document anytime by browsing it. It can also be linked to any other materials.

**Figure 3.10** An Example for ‘Documents’ in NVivo:



Nodes are created ‘to represent the ideas you discover as you browse your documents’, and they ‘are the places where you store ideas and categories’, ‘represent people, issues and other significant things in your project’ (A Step by Step Guide, 2005). According to NVivo, you can have ‘free nodes for ideas not yet belonging anywhere’, ‘tree nodes to catalogue categories and subcategories for easy access, like a library catalogue’, and ‘case nodes to

store material about each case, and case type nodes to group cases’ (A Step by Step Guide, 2005). For example, this study draws a tree node called ‘Different Groups’ Opinions towards Budgeting’, and uses the case nodes to separate documents from Company A from documents from Company B. An example of tree nodes is displayed below. Nodes could be merged or added with links as well.

**Figure 3.11 An Example of ‘Nodes’ in NVivo:**

Nodes		Nodes in /Different Groups' Opinions towards bu				
		Title	No.	Passages	Created	Modified
Recently Used		Board Member	1	0	15/05/20...	15/05/20...
Free (12)		Top Manager about ...	2	0	15/05/20...	15/05/20...
Trees (9)		Other people in hea...	3	0	15/05/20...	15/05/20...
Different Groups' Opinions to...		General Manager ~...	4	0	15/05/20...	15/05/20...
Cases (1)		Accountant in Headq...	5	0	15/05/20...	15/05/20...
Sets (0)		Main Accountant in S...	6	0	15/05/20...	15/05/20...

No coding. Children: 8  
(no description)

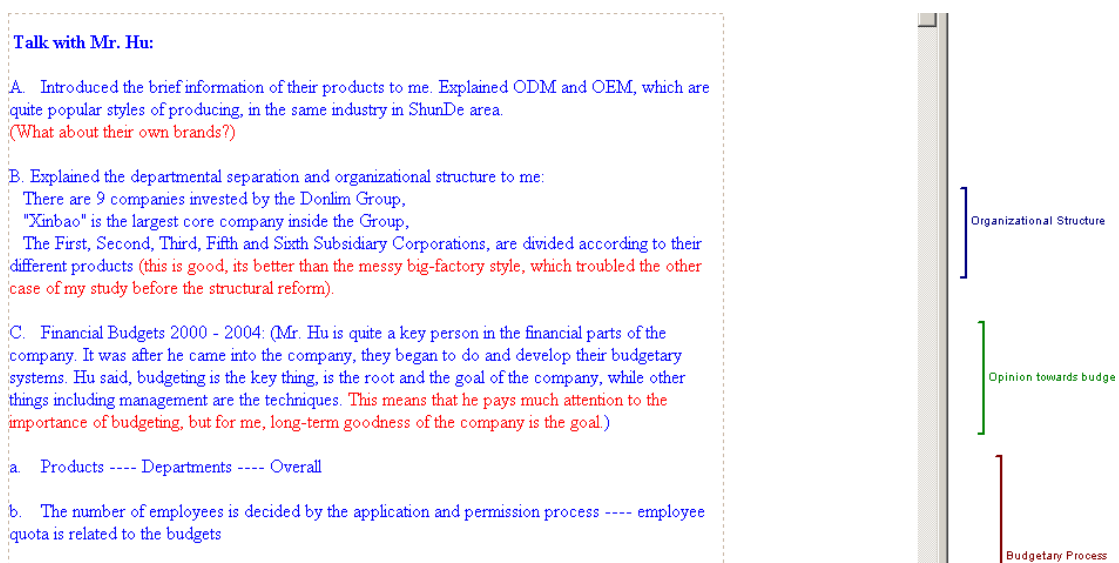
Attributes are ‘information about the people, sites or other items represented by the documents or nodes in your project’ (A Step by Step Guide, 2005). You can specify the values of them. ‘Attributes can be used to filter and search data’, for example, ‘providing the relevant attributes and coding have been recorded, one could ask whether there is a gendered response to an issue, or whether the style with which something is done differs across sites or periods’ (Bazeley and Richards, 2000). Since the background information of interviewees may help us to find out how and why people differ in their understanding of budgeting, the example underneath (figure 3.12) is a designed document’s attributes to Company A including: age, education, experience abroad, gender, monthly salary, and position.

**Figure 3.12 An Example of ‘Attributes’ in NVivo:**



Coding is considered as the key process of analysis through NVIVO. When ‘nodes were described as the places you store your ideas’, coding ‘is the way in which you store pointers to the text about those ideas (the computerized equivalent of putting all the relevant material into a shoe-box!)’ (A Step by Step Guide, 2005). Coding not only ‘enables you to find quickly all the relevant data to answer your research questions’ (A Step by Step Guide, 2005), but also helps you to obtain and refine clues from your materials. As the coding example of a conversation with Mr. H in Company A, coding stripes are shown in colour at the right side (figure 3.13).

**Figure 3.13 An Example of ‘Coding’ in NVivo:**



Besides, memo can be used to keep notes, sets are used to sort and manage the data orderly, and reports (including document reports, node reports, set reports, and matrix inspector reports) can be used to keep track of the project. Furthermore, as to the relationships, users of NVivo can use link tools (including Doclink, Nodelink, annotations, and DataBite link) to make or view links, or show and assay tools to view or report relations between documents , nodes and attributes. You can even use models to ‘show the relationships between the various items in your project’, ‘to demonstrate the theory you are developing, the issues in your team work, or how your data supports (or fails to support!) your early impressions or hypothesis’ (A Step by Step Guide, 2005), or use tables to find out the existence or non-existence of similarities, differences and relationships. For example, after using attributes for the background information of employees, tables can be drawn to see what these attributes could tell us.

The editing, coding, and analyzing process of NVivo could be endless because researchers can use it to continuously reorganize and refine their thoughts. Thus, examples about use of NVivo could be countless. In brief, NVivo could use its different tools to help users to record and organize data, based on certain categories, and use its functions to assist the analysis by making links, coding, sorting and doing simple statistics, finding out relationships or no relationships. It is more equivalent with this study’s epistemology and methodology than free-mapping or pure quantitative studies. Based on the analysis by NVivo, this thesis can connect the analysis results with relevant management accounting theories concerning budgetary issues to do further data analysis and discussion. For example, if relationships between organizational structure and budgetary systems can be found, this study then will use contingency theory of organizational structure, management or accounting theory of resource and information, or decentralization, to discuss the issue. For another example, if the

attributes of NVivo could show personnel influences towards budgeting, then this study can search human resource management literature for further analysis. In this way, all relevant literature and analysis will be attributed to, and reflect, the original data itself. As to the accessibility to NVivo, the researcher attended trainings and discussions about the techniques of NVivo. As the company keeps innovating QSR NVivo, this study uses the version of NVivo 8.0, which was launched while the formal data analysis of this thesis had begun.

While QSR NVivo serves as software to assist data recording and data analysis, it is not designed to be as a 'thinking' mechanism which can 'automatically' produce research outcomes. Hence, it is still the researcher who works on the information input and output, using QSR NVivo as a help to organize data, continuously looking for relationships with or contradictions to the data, shadowing the data in broad literature and research context, and formulating findings. The core of NVivo is that the researcher is the 'brain' who analyses data, and not the software itself.

As the researcher is the one who thinks and analyses data, Ruggiero (1996) suggested 'three stages of thinking', namely 'reflective', 'creative', and 'critical':

'Reflective' 'consists of equal parts observation and speculation. The most effective sociologists not only deal skilfully with challenges that have already been identified; they are also proficient at identifying challenges. In other words, they continually look for areas in which the field's perspective needs broadening or deepening, reconsider old perspectives, speculate on new possibilities (or old ones unwisely abandoned), and approach old ideas in a new way.' 'Its emphasis is exploration: finding interesting and promising issues for analysis. Because this kind of thinking makes no claim, takes no stand, expresses no viewpoint other

than “this seems a worthy matter to examine” it carries no danger of being wrong, no risk of losing face. Nothing is off-limits to reflective thinking – every theory, concept, perspective, and method is open to question.’

‘Creative’ is ‘the stage at which ideas are produced. Mastery of this process opens the mind to insight and increases the chance that the response will be original, but it does not guarantee an original response to every challenge. Nor does it imply that innovative ideas are necessarily better than established ones. The fundamental test of any idea is how effectively it solves the problem or resolves the issues in question. A response that fails this test is unacceptable, no matter how imaginative and unique it might otherwise be; conversely, a response that passes this test is acceptable, whether or not it is original. Only on those occasions when the creative thinking process succeeds in producing an idea that is both uncommonly good and uncommon is that idea termed creative. (Finding an innovative way of expressing an established idea would, of course, count as creative expression.) The ideas generated may take and of a number of forms, including procedures, formulas, principles, concepts and theories.’

‘Critical’ is ‘the stage at which ideas are evaluated. When applied to your own thinking, it follows reflective and creative thinking, appraising the ideas you have generated and correcting any errors you may have committed. When applied to other people’s ideas, which presumably were generated out of their reflective and creative thinking, critical thinking is used independently of the other kinds of thinking. Critical thinking serves to reveal to what extent and idea or argument fits the evidence and meets the requirement of logic. The ability to think critically, like the ability to think creatively, is not inborn but learned; although

individuals undoubtedly differ in their native capacity of such thinking, virtually everyone can master the fundamentals.’

Ruggiero’s work (1996) present valuable guidelines to understand how the researcher shall analyze data and formulise findings, while the following chapters of this thesis will present the data analysis results in details which are the outcomes of analysing processes.

As it has been explained in the previous parts of this chapter, it can be a demanding task to handle such immense amount of data with deeply implicated meaning. In response, the researcher only uses coding method (for example, ‘attributes’) suggested by NVivo, but also incorporate analyzing methods suggested by qualitative research or scholars in Management Accounting changes. As a result, the coding process includes different levels or ‘depths’. On the level of obvious attributes, ‘gender’, ‘education background’, ‘previous working experiences’ and ‘age’ are coded to see whether or not they influence attitudes and behaviours concerning budgetary changes. On the level of budgeting, major themes in budgetary literature belonging to topics including budgetary objectives, budgetary evaluation, and budgetary participation are coded respectively, to reveal changes over time or to compare between two cases. On the level of management, key people, key behaviours of these people, key changes of their attitudes are coded to reveal sub-groups within the whole organization and their influences in budgetary changes. On the level of technology, technological changes happen together with the budgetary reform are coded to reveal their relationships with budgetary changes, or to reveal common driving forces behind them all. On the level of macro environment, factors relevant with budgetary changes are coded to reveal external contingents which influence internal transformation. Chapters of data analysis in this thesis will further reveal the results gained through these different levels of coding.

Interestingly, these different levels of coding do not exist in isolation from each other. Therefore, the researcher then uses negative (reverse) case thinking to finish the full circle of logical coding. For example, if it is discovered during the previous coding process that technological change in financial accounting department influences budgetary control system, then in this further coding process it is asked that – do budgetary changes influence financial accounting department back? If the answer is ‘yes’, then this leads us to the in-depth examination of the mutual relationships, and causes behind the relationships. If the answer is no, then it also gives us confidence about the non-existing direction of influence.

For coding on the level of macro environment, on the one hand, major factors can deprive from data. On the other hand, it is easy to recognize certain significant ‘points’ of changes in case-study companies. These significant ‘points’ of changes can be a sudden halt, or an immediate breakthrough, or a disastrous catastrophe, or even a mere change of the plans. Recognizing these ‘points’, the researcher then takes a step back, to reflect on what significant event might have happened in the macro context of the society which may cause these ‘points’ of changes. This then adds one more rigor way of analyzing, to strengthen the reliability of coding process. In brief, this process includes spotting a ‘point’, identifying a significant linking event, looking back to data and codes to see what has happened in case study companies, to review the events and make more detailed coding relating with different departments or dimensions. Later chapters about data analysis (i.e., Company A’s changes of plans concerning becoming a listed company in China) will give detailed examples of the use of this coding process, that is, linking significant ‘points’ in data with internal and external events .



In brief, this thesis adopts multiple ways of coding which include both coding at different levels of depths and coding using different methods of logical thinking. They together provide a full understanding of the whole picture, which satisfies the intriguing nature of an ever-changing reality.

### ***3.9 Research Validity, Evaluation, and the Issue of Generalization***

Bryman (2001: p. 30) claimed that, validity ‘is concerned with the integrity of the conclusions that are generated from a piece of research’, and according to him, there are four types of validity. First, ‘Measurement validity’ of this study can be referred to the above sections concerning research methods. Five data collection methods combined, both qualitative records and quantitative figures collected, multi case studies and long span observation enhance the validity. For theoretical consistency, key terms are clarified according to relevant literature. Second, ‘Internal validity’ is mostly concerned with ‘causality’ (Bryman, 2001). It is about ‘a constant interplay between proposing and checking’ (Strauss and Corbin, 1990) causal relationships among data, categories, and theories are constantly tested. Not only is sensitivity enhanced during the process of getting more and more familiar with the data, but also sensitivity is strengthened by continuously reflecting on literature, personal experience and professional experience of the researcher (Strauss and Corbin, 1990) over and over again. The key issue here is nothing should be taken for granted. What only matters is what ‘exist in the actual data collected – not what you think might be out there but haven’t come across’ (Strauss and Corbin, 1990). Section 3.8.3 has already explained how the researcher tries to strengthen the validity of this research project’s data analysis through different layers of logical reasoning.

Third, 'External validity' is concerned with the issue of 'generalization'. Although generating representative samples is normally claimed as the priority concern of quantitative researches, it doesn't imply that this qualitative study has no meaning beyond its two studied cases. Selecting one case as a listed Chinese company with its own successful brand, and another as a non-listed Chinese company mostly engaged in ODM and OEM, they are both representative of their own type of Chinese companies, even of companies in other industries and other sites of China. Hence, although specific companies' experiences vary, the empirical experience of this study is able to be generalised in understanding Chinese companies' concepts and practices about budgetary (management accounting) issues, as well as China's macro and micro social economic studies in the future. According to Riley et al. (2000), multiple case studies also contribute to 'external validity'. Moreover, as a pioneering study for this specific research topic in the specific location and industrial context in China, research methodology adopted by this research implies suitable methodology for other exploratory studies in a different research context. Fourth, since this study is done through the field work based on day-to-day observation, it satisfies 'ecological validity' – 'whether social scientific findings are applicable to people's every day, social settings' (Bryman, 2001). In turn, being 'ecologically valid' also strengthens this study's external validity -- generalisation.

For evaluation based on qualitative research, the centre recognition is about 'the importance of an in-depth understanding of the context in which an intervention occurs and the diverse viewpoints of the stakeholders' (Greene 1994, 2000; quoted in Bryman, 2001). Hence, to understand the context, the researcher contacted relevant 'outsiders' for external insights. In 2007, not revealing the identity of the case study companies for this study, the researcher interviewed Mr. L who worked for a Chinese investment company, and had participated in many Shun De electronic household appliances' companies' financial evaluation meetings

(including both Company A and Company B's financial evaluation, and company A's project of going to the stock market). The researcher also interviewed Ms. H, who participated in both companies' insurance projects. Without revealing business secrets, these two interviews provided valuable chance to understand the companies in the studied industry and studied sites. The researcher interviewed Ms. W concerning Chinese governments' budgetary reform started from 2007. This interview provided information of certain concepts and ideology Chinese people maintain in regards to budgeting. The researcher also attended a one day workshop organised by Mr. Lang Xianping (2006), one of the most acclaimed scholars, working on the study of Chinese companies, and an evening presentation given by Mr. L, a local scholar studying the Shun De companies. Although not being direct data collected from this study, events mentioned above serve as reciprocal information. Multiple methods of this study are associated with each other, and cross evaluating information is gathered and theories are derived. Categories for data recorded in NVivo were discussed with experts in the area. Due to the confidentiality reason, the researcher doesn't apply 'probation study' by asking randomly chosen people to read data and generate ideas, but concepts derived from the data have been frequently discussed with the supervising team, practitioners in both companies, and wider audience for more objective reasoning.

### ***3.10 Methodological Limitations***

While Ruggiero (1996) illuminates 'characteristics of effective thinkers', he lists 'a scientific attitude, awareness of the limits of opinion, curiosity, the desire and effort to improve, willingness to acknowledge mistakes, a positive regard for convictions, fair-mindedness, openness to disagreement and criticism.' As Laughlin (1995, p. 65) said, 'all empirical research is partial and incomplete and that theoretical and methodological choices are

inevitably made whether appreciated or not'. So realising the unavoidable 'partiality' of the empirical approach adopted contributes to better understanding of this study.

The prior concern for a qualitative study's limitation is 'subjectivity'. As qualitative study (especially in in-depth case studies) in fact has been recognised and accepted even in management accounting studies, there is no such a need to argue too much about the acceptability of this doctrine here. Rather the emphasis is on the 'appropriateness' of adopting research strategy, data collection methods, and data analysis methods for this study's specific research circumstances; and on strengthening validity and quality of this study by paying technical and theoretical attentions to methodological and theoretical perspectives. As for the major form of this study's data collection – field work, Simpson (2006) argued that 'you don't do fieldwork, fieldwork does you'. As participant observation is 'inescapably framed between processes of subjectivation and objectivation', Simons (2006) suggested 'descriptions that are not just "thick", but which are also wide in that they introduce temporal variables that serve to situate and contextualise the production and ethnography' for the 'objectivation' reason. This research project uses in-depth study to collect information from different perspectives through different methods to achieve it. Riley et al. (2000) tackled the issue of subjectivity in in-depth interviews and suggested principles of good techniques (refer to the above section concerning data collection methods for details). The NVivo software helps the researcher to handle the 'subjectivity'.

Second limitation of this research project lies on the dilemma of accessing studied cases through key financial managers inside the two companies. Due to cultural reasons, without the permission and 'order' from the superior in the hierarchy, the interviews and observations are unlikely to be carried out. Although the researcher declared clearly every time the

identities are concealed and interviewees' opinions are not to be reported to the internal managers, the fact of connections with certain managers could not be totally ignored. This may lead to different reactions – some interviewees became especially open and informative due to the close tie with these managers, while some may become reserve and even hostile. The researcher had been fully realized about the pros and cons, and interviewees' different reactions can contribute to observation concerning company politics and power structure.

Thirdly, due to the fact that this study is about Chinese companies' practices while most of the literature in modern term management accounting concerning budgeting is in English, also is this thesis written in English, there is the interpretation issue especially for data record and data analysis; the field work was done in China and the data is recorded in English in Nvivo. As Rabinow and Sullivan (1979, p. 19) said, 'but ambiguity is an inherent aspect of all interpretation, as much at home within our own language and culture as in the more obvious problems of interpretation which the encounter with the other reveals'. Grasping Chinese (both Mandarin and Cantonese) as mother tongue, the researcher is sensitive towards the language issue and makes efforts in improving speaking and written English during the research procedure.

Some can argue that choosing two Chinese case study companies is not convincing enough. While certain scholars suggested to the researcher at major academic conferences that this research project shall study one Chinese company only, there were also other scholars who suggested studying three companies (perhaps one foreign company) in total. The researcher is very aware of this limitation caused by access issue, time-span, and research objective. And later chapters (4 to 6) of this thesis will further explain that insights gained by two Chinese

case-study companies provide sufficient findings and understanding, which can satisfy this research project's research objectives.

### **3.11 Conclusion**

It is the research problem that defines research rationales, and it is the research reality that decides suitable research strategy/ design/ methods. Following the previous two chapters' review of the nature of this research and the analysis of existing literature, this chapter firstly reviewed alternative philosophical underpinnings of management accounting research concerning budgeting (based on Laughlin et al.'s framework) to formulate epistemological and ontological foundations 'suited' to this study. As a result, a constructivist and interpretive stand adopting qualitative data narrative and data collection methods allows a budgetary study to be done in a different research context. Longitudinal case study is coherent with the bottom-up nature of budgetary process by listening to different actors' 'own voices', observing deep and rich reality, and analysing changes through time. Reasons and information concerning the selected industry, sites and case study companies are explained in this chapter.

Semi-structured interviews, participant observation, focus group interviews, document analysis, and questionnaires are coherent with the constructive and interpretive underpinnings of this study, and have been explained as data collection methods with examples in this chapter. Concerning the issue of 'triangulation', this chapter explained that mixed methods research enhances greater confidence in findings, and they provide in-depth information concerning budgetary system and cultural context, which can help to discover the role of 'taken for granted assumptions' in organisations' management accounting changes. QSR

Nvivo is chosen to analyse the massive data of this qualitative study. The basic logic of Nvivo as well as the strategies the research adopts specifically to analyse this research project's data is explained with examples in this chapter. The following chapters will focus on data analysis relevant with this research project's major topic – budgetary systems and techniques. Furthermore, how to satisfy confidentiality agreements, and handle sensitive topics properly without fundamentally influencing this study's nature and quality; pros and cons of researcher's identity in fieldwork'; research validity, evaluation, generalization, and methodological limitations are all discussed in this chapter. The pilot study also contributes as an important learning experience in this chapter.

In brief, constructive and interpretive underpinnings, qualitative research strategy, longitudinal case study, multi data collection methods and data analysis with NVivo are all not only based on the research context and the situation of existing literature, but also are congruent with each other and are coherent with the needs for answering budgetary control questions which concern integrated parts of organizations.

Based on the research methodology proposed and explained in this chapter, findings related to the research questions are going to be presented from chapter 4 to chapter 6 of this thesis. In chapter 7, further issues concerning these findings will be discussed. By linking interpretation of data with the literature review, it can examine that which Western management accounting theories concerning budgetary are still useful even in a different context as China, what else we need to know, what is the gap between the Western literature and the Chinese practice. In this way, the whole development and adoption of methodological framework (including the collection and analysis of data) are linked with relevant literature and research context in reality. Methodological experiences of this study may contribute to

sociological methodology literature by providing empirical experiences or suggestions on certain issues. The final chapter of this thesis will recommend future suggestions concerning this matter.



# **Chapter 4 Case-study: Companies' Budgetary Reform in A Changing Context**

## ***4.1 Introduction***

Previous chapters have explained that this study is an in-depth qualitative case study of two companies, who practice budgetary reform, in a different context as China. This chapter and the next present data collected from each case.

The implementation of budgetary systems can only happen through continuous changes. 'Change', an essential theme in management accounting since 1990s, literally can be explained as 'is reflected by a happening, an event denoting a difference in something' (Strauss and Corbin, 1990: p. 149-50). Continuous changes referred to here include both internal conceptual and behavioural budgetary changes and relevant external contextual changes. Changes in these two perspectives intertwine.

'Context' within which case-study companies' budgetary changes take place and with which budgetary changes interact lies in two levels. The first (broader) level of 'context' refers to the socio-economic, cultural, and religious factors of China, of Shun De area, and of Chinese electronic household appliances industry. The first aim of this chapter is to introduce the general context of China and Shun De, where the investigated industry is located. It is within this context that all the case evidences take place. The second aim of this chapter is to explore and then to start applying any cultural adaptations that are necessary during the course of this

research in respect of methodology, data collection and theoretical framework due to the unique context of China.

The second (or ‘organizational’) level of ‘context’ refers to organization’s different perspectives of management accounting changes. Presumption 1: budgetary changes don’t happen in isolation from other management accounting changes. Existing studies adopting the contingency theory approach in management accounting (refers to chapter 2) provide empirical findings mainly in a non-Chinese context, based on the recognitions that organization is an open system; organization integrates different activities; and organization interacts with the environment. This group of studies (i.e. Otley, et al.) has proved that ‘environment’, ‘techniques’, ‘size’, ‘strategy’ and ‘culture’ are management accounting ‘contingents’ which can affect the ‘effectiveness’ of organizational systems (i.e. budgetary system). Presumption 2: Chinese companies’ budgetary practices cannot be totally unique. Therefore, the third aim of this chapter is to examine – can management accounting changes take place while implementing budgetary control systems in a different context as China?

## ***4.2 A Different Context: China***

### **Socio-economic Factors**

Deng Xiaoping’s ‘open-the-door’ policy presented during his ‘Tour to the South’ in China during 1992, started China’s economic liberalization. Chinese government has gradually reduced trade protection barriers, as well as its rigid interventions towards enterprises’ business operations, to free Chinese companies to participate more actively in the international market. Global capital pours in. Foreign companies enter. 10 Years later, China

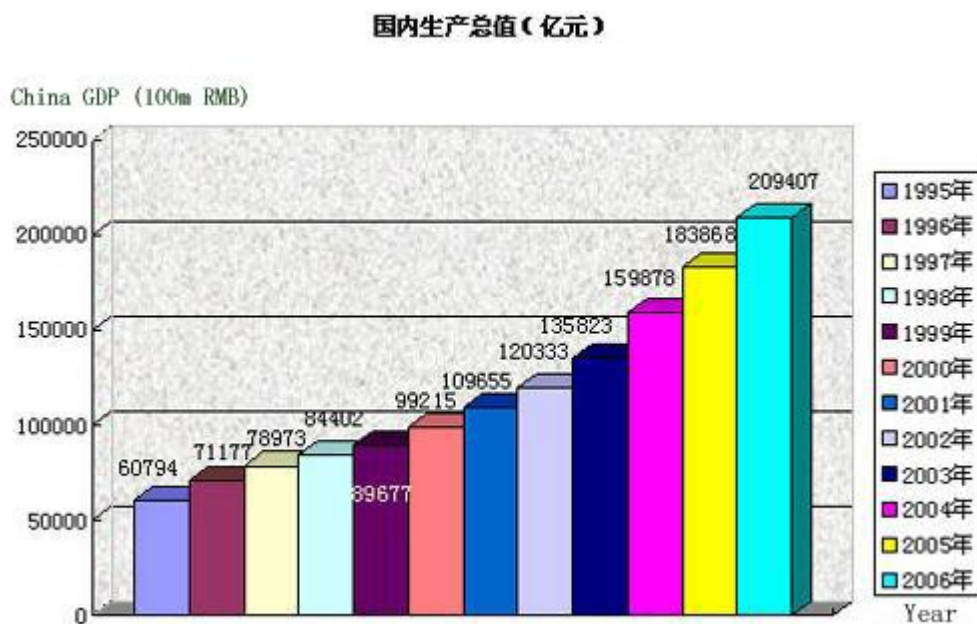
became WTO's 143th formal member on Dec. 11<sup>th</sup>, 2001. This further reduced Chinese government's interventions towards free market competition. Since then, China's rapid economic growth during nearly another 10 years has proved that China's joining into WTO in general has brought more positive influences than side effects to Chinese companies. Chinese companies' leading position in manufacturing labour concentrated products remains as it is. An opening-up economy predominantly supported by manufacturing industry defines China's economy in the last 20 years. Chinese manufacturing companies 'redefine' 'competitiveness' by low costs, low prices. The conveniences and problems brought by manufacturing industry are the main themes of China during this era. The future and solutions of manufacturing industry feature the future development of Chinese economy. This atmosphere shapes the basic social-economic context of China.

For the growing importance of China's economy, McGregor (2007) claimed that 'after nearly three decades of uninterrupted economic expansion, and five straight years of double digit-plus increases in output, China has become a motor of growth for the global economy and is on the verge of becoming the largest trading nation in the world.' Although there came a rundown in 2008 due to global economic recession and China's disastrous earthquake, Chinese economy still maintains confidence in recovery, the success of Beijing Olympics 2008 showed the image of a stable society promising future growth. China's manufacturing industry acts as a foundation for this economic growth and provides opportunities of employment not only in China, but also in other countries. Data issued by People's Republic of China's Statistical Bureau (Dec. 6<sup>th</sup>, 2005) shows that 'among (Chinese) industrial units of activities, there are 1,375,000 of them belong to manufacturing industry, which takes up 20.1% of them all', and 'among formal employees (in China), there are 83,905,000 in the manufacturing industry, which takes up 39.1% of them all'. Bearing in mind that China's

GDP is largely benefited from its manufacturing industry and products' export, graph 4.1 shows of annual increase between 1995 and 2006, issued by Chinese National Statistical Bureau. Since this institution only publish 5 year growth figures, and those of 2006 – 2011 has not been published yet, figures shown in graph 4.1 is the most recent data. Graph 4.2 adds to the illustration of the percentage of this annual increase of China's GDP, based on China's National Economy and Social Development Report ('White Book') for 2006.

**Graph 4.1 China's GDP 1995-2006:**

The expansion of China's GDP is shown below.



Vertical values represent GDP amounts (unit: 100 million RMB), while horizontal values represent years.

The web address of this resource is: [http://cn.chinagate.com.cn/data/2007-02/07/content\\_2366190.htm](http://cn.chinagate.com.cn/data/2007-02/07/content_2366190.htm)

**Graph4.2 China's GDP and its annual growth rate 2002-2006:**

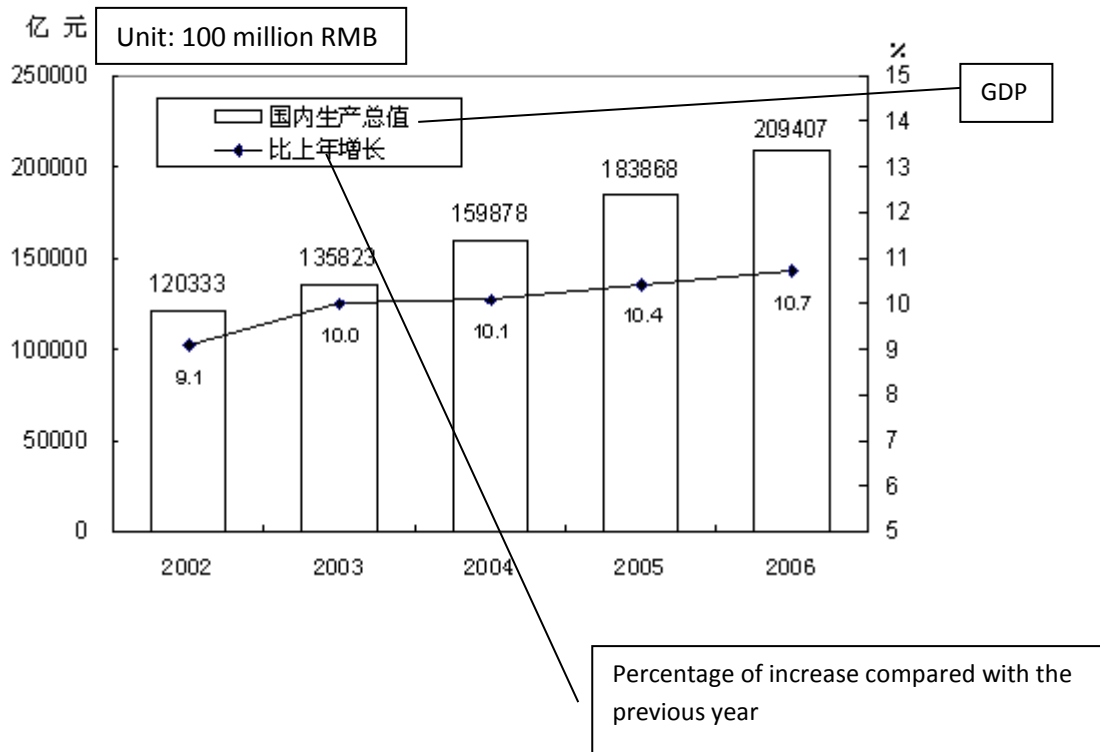
Vertical values on the left side = GDP amount (unit: 100,000,000.0 RMB)

Vertical values on the right side = annual GDP growth (unit: %)

Horizontal values = Year

The original resource of this graph is China's National Economy and Social Development Report 2006.

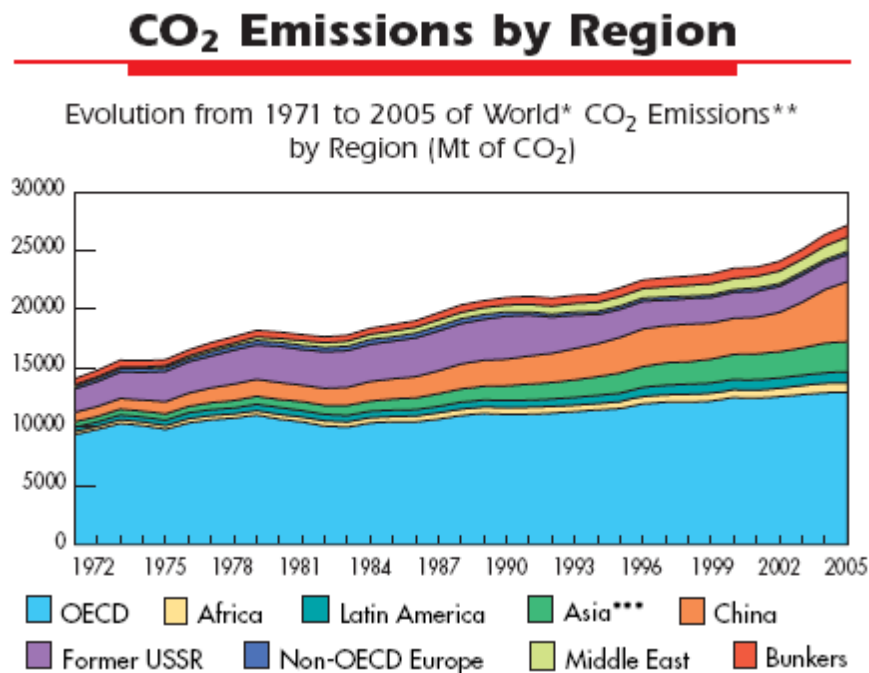
<http://cn.chinagate.com.cn/chinese/yw/67979.htm>



There is a dark side behind the wealth and convenience which China's manufacturing industry has brought the world. For the problems shared by China's manufacturing industry and China's economy, an expanding social difference is a severe one, while environmental damage is another issue needed to be dealt with urgently. While the former is beyond the scope of discussion of this study, the latter can be reflected in graph 1.3 underneath, based on IEA (The National Energy Agency) Key World Energy Statistics, 2007.

**Graph 4.3 A Statistics by IEA about CO<sub>2</sub> Emissions from 1971 to 2005** for more than 140 countries and regions by sector and by fuel, Source: IEA Key World Energy Statistics, 2007

([http://www.iea.org/textbase/nppdf/free/2007/key\\_stats\\_2007.pdf](http://www.iea.org/textbase/nppdf/free/2007/key_stats_2007.pdf))



In other words, China's fast economic development pays a big price on natural resource exhaustion, unbalanced social development, and serious environmental pollution and worsening condition of human health (China's increasing rate of death due to cancer in recent years serves as an example). This is because of certain feature of China's manufacturing industry including labour concentrated, low processing fee, low technology contained, and highly environmental costing. These specific features of Chinese manufacturing industry are caused by China's low position in global distribution, Chinese unbalanced industrial structure, and Chinese companies' poor inner control. Although there always is a debate about the necessity of China's manufacturing industry (i.e., Lang, 2006; Yu, 2005; Fan, 2006), this industry will remain as one of China's supporting industries in the near future. Hence, serious

problems and their causes mentioned above shall not be ignored. To be noted, these problems do not affect China alone in the longer run, and are not caused by Chinese manufacturing companies alone. Responsibilities shall be shared with foreign investors, producers, and customers who plant factories in China for more advantaged production distributions and more favourable market prices, and Chinese authorities who lack the vision, action and experiences to keep relevant perspectives all in positive condition. To solve these problems, there is a need to understand the whole picture, and to improve Chinese manufacturing companies' stage of development through better quality control, resource management, industrial structure, and environmental concern, which can only be achieved through better management control.

In brief, figures and examples demonstrated above prove the importance and necessity of understanding China's social economy. As is discussed in chapter 1 of this thesis, because China's manufacturing industry is not only the backbone of China's economic growth at this stage and in the near future, but also shares (or even causes) substantial problems which influence China's economy and society and even the rest of the world, one cannot understand China's social economy of the current eras without understanding the nature of China's manufacturing industry.

While being as the 'World Factory' in global economy, China has also responsively undergone reforms in policies to allow the macro infrastructures to support Chinese economic development. A major change in policies which signified a shift in ideology was allowing wealth differentiation through encouraging individual's commercial efforts to gain personal or group interests. This change started by the creation of production responsibility systems in

the countryside of China, then spread into a national recognition towards three types of ownership other than State ownership, which used to be the only legitimate ownership form of Chinese companies. These three types of ownership towards Chinese companies include (Chinese individual or group's) private ownership, foreign capital ownership, and joint ownership. Both of the two case studied companies in this research project are private ownership companies. In other words, these two companies' existence alone is in fact the result of Chinese social-economic changes in recent decades.

In order to support ideological and ownership changes mentioned above, Chinese government further justified specific social-economic policies to support the transformation, and to regulate the transforming social economy. As an example of Chinese policy change to support ideological and ownership changes, a series of favourable policies in taxes to encourage private owned Chinese companies' development or foreign capital's investment. An example of Chinese policy change to regulate the society is Chinese accounting reform. Moreover, these changes in social-economic policies (including accounting policies) also represent China's gradual process of 'normalization'<sup>1</sup>(Chapter 5 is going to further discuss existing problems in this process of normalization).

For Chinese accounting reform mentioned in the previous paragraph, Nobes and Parker (2002) reviewed China's accounting regulation of 1992 and further development afterwards. These

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<sup>1</sup> Organizations have to conform to rules and belief systems prevailing in the environment to survive (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Scott, 1995). Institutional isomorphism, both structural and procedural, earns organizations legitimacy (i.e., Suchman, 1995). Neo-institutional perspective of organizational analysis 'conceptualize institutions as generative of interests, identities and appropriate practice models that take shape in wider socio-cultural contexts' (Dobbin, 1994, quoted in Lounsbury, 2008). 'In turn, these broader contexts facilitate cognitive, normative and regulative pressures that fundamentally shape organizational behaviour' (Scott, 2001, quoted in Lounsbury, 2008). For accounting specifically, Hopwood (1990) said that, 'accounting has the power to shift patterns of organizational visibility so that the concerns of the external world can permeate and influence internal organizations'.



researchers argued that, Chinese accounting systems used to be ‘based on a Soviet system of uniform accounting’. These researchers contributed the reform of China’s accounting since 1990s ‘as a result of economic reforms’. And argued that one major purpose for this transformation is to ‘encourage foreign investors’. Chinese academics and practitioners in general also recognize Chinese accounting reform 1992-1993 as an important changing point. Although China’s accounting standards have been ‘internationalized’, the users of information and the way of using or producing information can differ from Anglo-Saxon countries. Nobes and Parker (2002) noticed that in China, ‘a hierarchy of users includes the government, banks, the public and an enterprise’ own management. This is very different from the US/IASC emphasis on financial decision making by outside investors, although it fits a country where the government is still the most important provider of corporate finance and where loan capital is more important than equity.’ Another observation by these researchers gives an alternative suggestion for Chinese companies’ manipulative behaviours in accounting, which will be further discussed in Chapter 5 of this thesis. This observation by Nobes and Parker (2002) claims that, China differs from US/IASC in ‘there is still a high degree of conformity between tax and accounting figures, so that the calculation of taxable income is a major purpose of accounting (in China)’. Other researchers also discussed China’s accounting transformation. Chow et al. (1995, quoted in Nobes and Parker, 2002) concludes that ‘cultural constraints will slow China down in its move towards Anglo-American accounting’. Mar. H in Company A told the researcher that the chartered accountants of Canton province used to be ‘elected’, instead of being ‘selected’ through professional examination. Relating with findings of this thesis, it can be true in China that as Nobes and Parker (2002) said, ‘accounting continues to evolve’ yet accounting ‘is likely to be affected by any future economic and political changes’.

The context for Chinese companies' 'normalization' has changed. In the 1980s, the large 'grey area' in Chinese society allowed people to earn money in whatever 'games' they are good at. However, with the deepening of social reform and the settling of the social patterns, now there is an increasing need for professional expertise and responsibility. Managers' ability of earning money for the company is no longer the only concern. A higher level of responsibility, professional risk, and anxiety caused by external regulations, forces Chinese managers to find legitimate ways to gain profits for their companies, to improve companies' inner management and cost control, and to present the company with a normalized image. Furthermore, interacting with foreign customers, suppliers and competitors, or operating in foreign market, requires Chinese companies to adapt into international written or unwritten 'rules of games'. This requirement increases the need for Chinese companies to present themselves with an image of being 'modern, good, trustworthy, and legal'. These international interactions also enable some Chinese companies who trade internationally to get in touch with modern management accounting techniques and systems. As a result, in order to achieve better organizational control and normalization, which are required by inner development and outside circumstances, some Chinese companies start using advanced management accounting techniques. Budgetary system is one of the earliest and the most important management accounting systems Chinese companies adopt in this context.

### **Cultural Factors**

With the rapid social-economic changes shaped by China's recent twenty years' globalizing economic reform, there is a more subtle yet no less profound transformation, taking place underneath – cultural<sup>2</sup> transformation which interacts closely with social-economic changes.

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<sup>2</sup> According to Nobes and Parker's study in comparative international accounting (2002), not only 'accounting is affected by its environment, including the culture of the country in which it operates',

Just as any society going through drastic change, this cultural perspective of transformation is featured by continuation vs. breakdown: convention<sup>3</sup>'s suppression towards liberation, confusion caused by an extreme abandonment of tradition, conflicts (both in terms of politics or economy, and in terms of beliefs or values) among interests groups during social upheaval or downfall, and finally a firstly subconscious then conscious collective search for a further phase of cultural constancy. The result of this search for cultural constancy is supposed to accommodate a vaster range of cultural diversities than ever before. In brief, it is not only the shifting social-economic context of China, but also the transforming cultural context of China, that embedded and featured studied companies' changes.

During most of time in Chinese history, China's vast and fertile land allows China to basically remain self-contained in resource regardless of the demand caused by its large population. This gives China a stable sense of security and confidence. This confidence

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but also 'culture in any country contains the most basic values that an individual may hold', 'it affects the way that individuals would like their society to be structured and how they interact with its substructure', and 'accounting may be seen as one of those substructures.' Hofstede (1984)'s research revealing four basic dimensions of culture was quoted by Nobes and Parker (2002), to reflect some idea of the basic cultural patterns of various countries. These dimensions include 'individualism versus collectivism', 'large versus small power distance', 'strong versus weak uncertainty avoidance', and 'masculinity versus femininity'. Furthermore, Nobes and Parker (2002) introduced that 'Gray (1988) applies these cultural differences to explain international differences in the behaviour of accountants and therefore in the nature of accounting practices', and 'developed the following pairs of contrasting "accounting values": professionalism versus statutory control; uniformity versus flexibility; conservatism versus optimism; secrecy versus transparency.' 'The first two relate to authority and enforcement. Here Gray sees a clear contrast between the "Anglo" culture area on the one hand and Asian areas on the other. The second two relate to measurement and disclosure. Here Gray contrasts the "Anglo" and the Latin and German cultures.'

<sup>3</sup> A convention is a set of agreed, stipulated or generally accepted standards, norms, social norms or criteria, often taking the form of a custom. In sociology, a social rule refers to any social conventions that commonly adhere to a society. Social rules reflect what acceptable or normal behaviour in any situation is. Michel Foucault's concept of discourse is closely related to social rules as it offers a possible explanation how these rules are shaped and change.  
[http://en.wikipedia.org/wiki/Convention\\_\(norm\)](http://en.wikipedia.org/wiki/Convention_(norm))

enables Chinese culture to value generosity, hospitality, and peace. The rural economy has played an important role during Chinese history, makes Chinese culture respects the elderly, the tradition, kinship ties due to blood relationships and geographical origins, and the philosophy gained from the wisdoms of a harmony with nature and among people. With a federal dynastic system ruled from 221 B.C. to 206 B. C. (Qin Dynasty) towards 1644-1911 A. D. (Qing Dynasty), China has become accustomed to strong central control and hierarchy. The communication in politics, business, religion and culture with the West during current decades is not totally new to China either. For example, the famous ‘Silk Road’ provided a way of international trade, and during the Tang Dynasty of China, the native culture reached such a level of openness that even foreigners from i.e., Japan and the West, were appointed as China’s central government’s officers. During the more recent Ming Dynasty, China opened 13 cities along the coast-line to trade with the rest of the world. Before the People’s Republic of China’s social-economic reform mentioned in previous section 4.2.1, China appointed the Fair of Export Commodities (Guangzhou Fair) as a specific channel for international trade and communication. Although business, in domestic or international market, is normally protected or encouraged, business people traditionally do not belong to the upper category of China’s society from the perspective of social class, due to Chinese emphasis in rural economy. The ruling class during China’s long federal history has been a combination of intellectuals and governmental officers. Guo-Min Dang (or ‘Kuo-Min Tang’, Chinese Nationalist Party) imitated a Westernized capitalist class system, but it ruled only for a short period in China (1927-1949), before the party’s retreat to Tai Wan. People’s Republic of China’s political system returns the nation to the people (from its establishment in 1949), and have changed the class system of China. Originally P. R. China imitated the previous Soviet Union to totally prohibit differences of private wealth. This practice is obviously against human nature and is counter-productive. Economic crises endangering the Chinese political

system finally pushed China to social economic reform mentioned in previous paragraphs of this section. The importance of individual wealth and the social role of people of wealth yield increasing significance in Chinese society. Nevertheless, education and cultural cultivation are still held at high regard. To a large degree, Chinese traditional class system which respects the rule by the combination of politicians (different levels of governmental officers) and intellectuals (academic families) still influence China's society and culture, in a subtle yet substantial way. For example, although education has always been seen as highly important in Chinese culture, newly rich Chinese also try to change their class status through improving their children's education. This phenomenon also brings an increasing emphasis on another type of kinship ties in Chinese culture – kinship due to educational background. Naturally, with the increasing importance of the group of Chinese who are privileged financially, there comes a possibility of a new ruling class which combines governmental officers and significant business people. The negative side of this possibility is the endangering of political corruption.

As it has been examined in the previous paragraphs, globalization and the transformations caused by 'modernization' have brought a lot of challenges to China's existing culture. Meanwhile, China's long existing culture also brings challenges to China's current social-economic transformation vice versa. Chinese companies' introduction of budgeting shares the common conflicts of ideologies and ideas between the 'East' and the 'West', the conflicts which feature the transforming China. These conflicts include a market-based ideology vs. a central-planning hierarchical ideology; a capital culture vs. a culture with heavy rural society influence which emphasizes kinship ties (both kinship due to blood relations and kinship due to geographical origins or educational background); individualism vs. collectivism; discipline and system vs. an 'artistic' way of doing things; concepts underpinning and being

underpinned by a mature and developed society with strong regulations in the West vs. concepts underpinning and being underpinned by a developing society lacking sufficient surveillance. Briefly speaking, it is more difficult a task than merely transferring ‘know-how’ when Chinese companies implement management accounting systems including budgetary systems, and these deeper ‘roots’ which can only be explained in a broader context of China may contribute to challenges to real management accounting including budgetary changes, as well as to interesting findings that may be gained from this study.

### **Religious Factors**

Previous paragraphs introduced that Chinese political officers and intellectuals (academics) have long been the ruling group during China’s long history. Under the strong influences of Chinese scholars, China’s religions have always been intertwined with different schools of thoughts. These schools of thoughts do not merely refer to a specific subject of knowledge. They include a mixture of humanities– philosophy, literature, politics, religion, and even sometimes include military science. Chinese ancient scholars, for example Confucius, Lao Zi, Zhuang Zi, all have their own ways of viewing the world and the relationships between people and the world. To a certain degree their thinking about this issue goes beyond the boundaries of philosophy and enters the field of religion. China’s native religion started from Chinese scholars’ different schools of thinking. Lao Zi does not only insist in a living of gaining wisdom through modesty and solitude, he and his disciples also devote their time in Temples of Tao to discover alchemist mysteries and the truth of the world. In China, we call the religion originated from Lao Zi, as the religion of ‘Tao’. Later, Buddhism from India and Christianity from the West became two other important religions in China. Moreover, since China has been a rural country for thousands of years, life has largely relied on factors that

are not totally controllable by human beings. Hence, pagan superstition also affects Chinese people's thinking. Furthermore, China has about 56 ethnic groups now. Certain ethnic groups have their own 'religion' or 'worshipped saints and elements'. This also contributes to China's reality of multiple religions. The researcher took photos of Company A's altars for the God of Fortune during field work.

### **Industrial Context**

The methodology chapter has justified the reasons of choosing Chinese electronic household appliances' industry as the research context of this study. It has also introduced basic information about the industry and the case-study companies. This current section focuses on a different perspective by introducing specific characteristic of this industry, which affect case-study companies' budgetary concepts and behaviours.

The competition within Chinese electronic household appliances industry itself is intense. The same as many other Chinese manufacturing industries, Chinese electronic household appliances' industry holds competitive advantage through low operation costs to function the role of 'manufacturing factory' in the global contribution link. The profit gained per unit is already low. Most Chinese companies in this industry base their major businesses on ODM and OEM for foreign brands, the technology level is low, and the designs of products are easily imitated or substituted. Due to this low degree of products' differentiation, while the clients are limited, Chinese companies in the same industry have intense price competition among themselves. When the price drops, attainable profit falls. Chinese companies then need to further expand the production scale to maintain profit level and market share. It is not

surprising that when there is not enough capital to sustain this scale expansion, Chinese electronic household appliances companies, especially those private owned companies who have more difficulties to obtain loans from banks than their state owned counterparts, will confront surviving crisis. According to a survey study concerning ‘the biggest problems troubling private owned businesses in China’ discussed by Chen (2006: p. 78), ‘80% private owned companies participated in the survey study “put lack of capital” as top 1 problem troubling them’. In brief, the disadvantage of low profit level per unit product shared by other Chinese manufacturing industries and the difficulty of lacking sustained capital shared by Chinese private companies both exist as Chinese electronic household appliances companies’ fundamental problems. This in turn makes cost control a theme of essential importance in this industry, no matter what is the strategy a company chooses to adopt.

As discussed at the start of this current section, globalization has not changed China’s leading position in manufacturing. For Chinese electronic household appliances industry specifically, according to an interview with Mar. H from Company A in 2004, by having benefited from supporting industries, relevantly developed industrial technologies, and ‘China’s competitive advantages in the costs of labour force and other relevant costs which will remain within the future 10 years’, Chinese companies ‘will still keep their leading position in electronic household appliances industry for quite a few years’. For the moment, challenges outside China come from ‘Southeast Asian countries and India, who also have competitive advantages in labour prices and thus possess the potential to catch up with Chinese companies’ in the industry of electronic household appliances (according to the same interview with Mar. H., 2004). These global elements, being combined with this industry’s intense competition in cost control, force Chinese electronic household appliances companies to keep upgrading their inner management to secure a favourable position in the global



market. ‘Borrowing’ Western managerial techniques and systems has become a necessity for Chinese companies in this industry at this stage. This necessity interweaves with China’s specific cultural context, and makes the use of these techniques and systems in Chinese electronic household appliances’ industry both ‘common’ and ‘unique’ compared with Western experiences.

Globalization also brings opportunities for Chinese companies to operate in a global investment market. With the growth of many Chinese electronic household appliances companies, they start looking for expanding investments towards overseas markets. Due to Chinese companies’ low position in the global distribution<sup>4</sup>, and these companies’ lack of experiences in operating in the global financial market, it is difficult for most of them to quickly gain substantial achievements in this prospect. Hence, the responsibility of survival and improvement still mainly lies on improving inner management and cost control.

### **Shun De’s Context**

Shun De has never been a large city by landscape. However, it has always been an economically strong city before and now, during the war and during the peace. It is conveniently located at the centre of Pearl River Delta. The fertile delta had enabled Shun De to benefit from agriculture in history. However, during recent eras, Shun De has become famous through its other supporting industries. The electronic household appliances industry is one of these successful industries in Shun De. Shun De is close to Hong Kong, connected

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<sup>4</sup> Arrighi et al. (2003) discussed about this ‘global distribution’ and claimed that it is due to ‘firstly, Western dominated international order; secondly, East Asia’s own limitation in land’. And ‘as long as East Asia doesn’t want to challenge international order of labour distribution, Westerners take up resource concentrated and capital concentrated technological area, while East Asia emphasizes on labour concentrated technology, this complementary mode is going to be effective’.

by direct ferries. It is also close to the capital of Guangdong (or Canton) province, the centre of southeast China's culture, economy and politics. Guangdong province is famous for being strong in business. Shun De's economic development even excels in the province of Canton. Chinese people called Shun De people 'the scary Shun De ones' because of Shun De people's strong spirit in entrepreneur and astute business endeavours. The success of Shun De's economy, especially Shun De's electronic household appliances industry, has attracted Chinese researchers to discover the 'mode of Shun De' (i.e. Fan and Chen, 2002).

In spite of these admirable characters, Shun De also has its limitations. Being small has pushed people here to try something new, to go out to the world to learn, and to experiment a lot in business. However, it can also lead to a 'narrow' mind-set. Shun De people can be very superstitious, strongly against outsiders, and over-protective to its local economy. Being rich, Shun De also has arrogance in underestimating the power of education and culture. Quite different from Chinese people in most other regions who put education in the highest place, Shun De people value the value of money most. While this character may benefit Shun De's economic growth, in the long term, it also can limit Shun De's development. Conflicts caused by differences or power struggles between 'indigenes' and 'transplants' in Shun De, will be analyzed in chapter 5 of this thesis.

### **Implications for Necessary Adaptations towards Methodology, Data Collection and Theoretical Framework due to Contextual Factors**

Previous parts of the current section have provided a backdrop introduction to cultural, social-economical and religious factors shaping the context of China, Shun De, and the

industry. The becoming of China's collective ideology obviously differs from European or American societies. These contextual differences imply the necessity for adaption towards methodology, data collection and the theoretical framework due to contextual factors. The researcher initiated a pilot study based on the Contingency Theory approach of management accounting. According to the research method generally used by this approach, the researcher designed an original set of questionnaires. This questionnaire is very detailed. The research method was supposed to be statistical. It didn't work.

Questions derived from management accounting contingency theories concerning budgeting helped the researcher to easily open up conversations with interviewees or observed informants. However, existing contingency studies alone cannot explain case study companies' budgetary concepts and practices. For example, contingency theory approach includes organizational structure as an important contingent. This helps the researcher to ask questions about case study companies' structural changes. However, what are these structural changes' relationship with budgetary reform? Are case study companies' structural changes the same with Western companies' structural changes? How to explain company A's manipulating / 'false' structural change? In brief, in the context of budgeting in Chinese electronic household appliances companies, contingency theory approach in management accounting exposes its weaknesses. This approach can only reveal superficial findings, without any possibility to explain most of the reality.

The researcher concluded that large scale quantitative studies may suit disciplined Western companies in a mature industry. It doesn't suit Chinese electronic household appliances industry at this early stage of market competition: some companies are here today and are

gone tomorrow; companies have not settled down into different categories of development; the market has not been stabilized into reasonable distributions. It takes in-depth case study research methods to comprehensively ‘interpret’ budgeting in this research project’s context. Coherently, an interpretive and constructive way of seeing the world is more suitable than positivist and neo-economical ways of thinking. Adaptations in research methods and data collection also make it more reasonable to flexibly allow multiple Western theories of management accounting change to interpret budgetary changes in case study companies. As this study’s chapter 3’s section about the pilot study explained, after the researcher adjusted methodology and theoretical frameworks, even the informants in case study companies felt more ‘comfortable’ with the new set of questions. This reaction validates the adaptations made.

### ***4.3 Company A’s Budgetary Reform in a Changing Context***

#### ***4.3.1 Environmental Factors Have Causal Relationships with Budgeting***

As it was discussed in section 4.2.4, low profit per unit and the lack of capital are two major difficulties Chinese electronic household appliances companies share with. Company A can neither escape these difficulties nor be free from the anxiety caused by a deep need for cost control.

Company A has quite enjoyed its relevantly higher level of profitability comparing with many other Chinese companies in the same industry for a while, before this urgent ‘need’ for cost control really ‘kicks in’. Though not being among the top-category companies in the

industry, Company A has benefited from a strategy suits itself. Mar. H, the general manager of the investment group and the key financial figurehead of Company A said that, ‘the strategic focus is profit’, ‘we win by selling more products with good quality at low prices’, ‘our competitive advantage is to be fast to produce new products to attract customers’, ‘and to be flexible to achieve the maximum of profit’. For the flexibility as an example, Mar. H once asked the researcher to introduce any kind of orders from abroad. ‘We have factory houses, people, initiating capital, and producing lines. Whatever products the orders demand to produce, we can try to turn it out.’ As far as the researcher has observed, this so-called ‘flexibility’ can be mostly defined as the willingness to do whatever it takes to gain profit. It is not necessarily based on an advanced mastery in different perspectives of production and market, which can allow Company A to freely choose goals and to focus resources to reach these goals. Instead, it rather represents a lower level of mastery towards the environment – being willing to adapt to the environment, by doing whatever it takes to survive. This strategy of ‘flexibility’ represented and suited Company A’s starting stage of development. However, when Company A moves forward, this relevantly low level of mastery towards circumstances shows its limitation.

As a result of this limitation, with an accumulation of pressure caused by environmental changes during the last ten years, time came when Company A’s competitive advantage in profit gained by ‘flexibility’ can no longer be sufficient to sustain its market share. Company A started its budgetary reform in 2004. Through the ‘key event method’ of data coding by NVivo, it shows that in 2004, the prices of the key materials kept going up, while the tax return rate was reduced by 4%. This contextual change can provide the explanation of Company A’s initiation in budgeting. Being unable to shift the profit level by breakthrough technology, Company A had to turn its direction of development towards improving internal

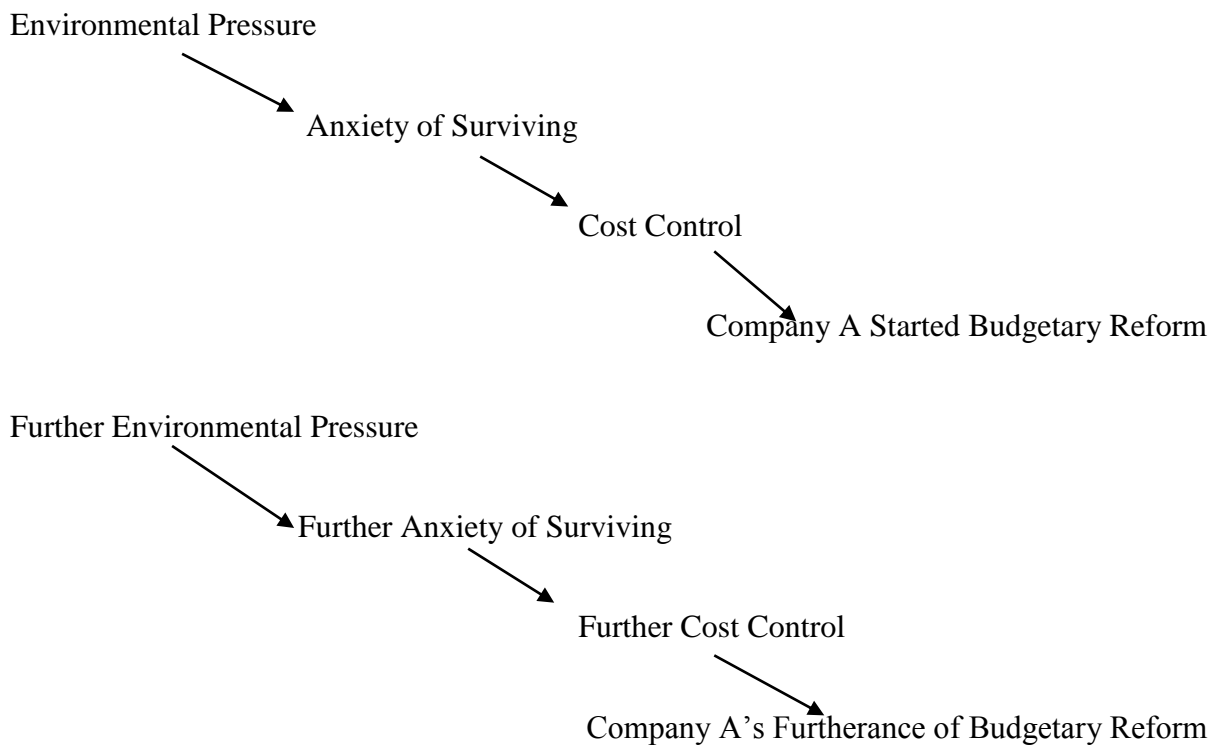
management to reduce costs. This causal link between environmental pressure and Company A's initiation of budgetary reform is proved by Mar. H's words recorded in data notes. He said, 'cost control was the major reason for Company A's start of budgetary reform'. In brief, causal relationship between environmental pressure and the establishment of budgetary system due to an anxiety of cost control is obvious in Company A.

Also by using the 'key event method' of data coding, it is found that not only environmental pressure causes the start of budgetary reform, but also it causally links with Company A's further management accounting changes including budgetary changes. According to interviews in Company A in Jan. 2007, the export tax return rate (13%) had been further reduced by 4% comparing with the figure of 2004 (17%). It affected the profit levels of Company A's products by 1.2% to 1.4%. The increase of RMB's exchange rate offset Company A's profits since A's major businesses relies on export. Moreover, the labour market in the Pearl River Delta, where case-study companies is located at, has become more and more demanding. With the improvement of the government's conscience towards environment and employees' welfare, workers gradually can have more employing choices. Company A had to expand investments on labours' welfare and pension. Due to these factors, according to data collected during the second round of this research project's data collection, Company A has carried on budgetary system throughout the whole group company ever since its beginning in 2004. Company A has kept spreading budgetary system to its newly invested subsidiary companies.

In short, environmental pressure demands tighter cost control, and therefore budgetary system is used as one of the main methods to achieve it in Company A. Figure 4.1 underneath

illustrates the causal relationships between environmental pressure and budgetary system in both stages of initiation and furthering.

**Figure 4.1 Relationships between Environmental Pressure, Cost Control, and the Start and Deepening of Budgetary System in Company A:**



Furthermore, the researcher observed that, people who are responsible of Company A's budgetary changes (i.e., the shareholder brothers introduced in chapter 3, and Mar. H who was appointed for this task) consciously acted out of the environment's pressure on achieving cost's reduction and profit's gain in fiscal terms. However, these measures they took also imply that they were subconsciously pushing Company A from flexibly and passively adapting into environment, towards another stage of strategically and actively 'master' the environment by taking advantage of Western management accounting techniques or systems,

such as budgeting. The impact of this subtle change on Company A's development after the second round of data collection will be investigated in discussion chapter. The complicated relationships between Company A's budgetary changes and environmental factors revealed by data discussed in current section, cannot be explained by Western experiences in statistical studies based on the contingency theory approach alone.

Challenges imposed by globalization also causes Company A's use of budgetary system for self-development. The same as many other Chinese companies in the same industry, Company A's businesses mainly lie on producing OEM (and ODM) products for foreign customers. Company A shares with other Chinese companies in the influences (either negative influences or positive influences) brought by China's globalizing (refers to 4.2 of this thesis). Case evidence shows Chinese process of globalizing's positive influences from China's globalizing on Company A that in the year of 2002 (the first year after China's entering WTO), Company A achieved a high annual growth rate of above 10%, and both of its markets in North America and South America were expanded during the same year. Case evidence also shows that globalization stimulates Company A to operate in the foreign market and hence there is a need to satisfy global regulations and to 'normalize' as a qualified international business player. Mar. H was looking at information concerning foreign companies or extending Company A's businesses into Germany, Netherland, and other Western countries during the second phase of this research project's data collection. Case evidence also shows that competition with other Asian countries brought by globalization (i.e., Indonesia, Vietnam) also motivates Company A's budgetary reform. In brief, opportunities and competition brought by globalization motivates Company A's self-development. Budgetary reform is one of Company A's measures for self-development – to reduce costs, to prevent international competitors to catch up, to present itself with a better



image in the global market, and to coordinate with global manufacturing and financial markets. Global influences matters to every country in the world. Yet the case evidence says that it matters much to Company A, since China is merging into global economy with a fast pace and big steps.

Furthermore, changes in China's domestic environment also require changes in Chinese Companies. As it has been discussed in 4.2, China's macro financial surveillance and regulation have been improved, though still far from enough. This demands better internal management and operation of Chinese companies. Case evidence shows that, being confronted with these changes, Company A has to change itself, willingly or unwillingly, both the coding method by the themes of 'normalization', 'surveillance', 'regulation' and the coding method by major event are used here.

The first relevant case evidence refers to Company A's decisional changes concerning the issue of becoming listed in stock market. Company A was originally planning to be listed in Hong Kong stock market in 2005. It was observed by the researcher that this plan was later cancelled due to a scandal of Chuang Wei Ltd<sup>5</sup>. Company A was afraid that could not satisfy the better regulated Hong Kong stock market. Hence, Company A decided to hire

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<sup>5</sup> Chuang Wei's scandal of going into the stock market: Chuangwei Ltd. (whose English name is Skyworth Digital Holdings Ltd.) is a private owned Chinese company. On Nov. 30<sup>th</sup>, 2004, 10 chief managerial staff including the CEO, Mr Hongsheng, Huang, were arrested by Hong Kong Independent Commission against Corruption (ICAC). This scandal was listed as one of the top ten scandals of Chinese companies in 2004 by China's 'Zheng Quan Ri Bao' ('Securities Daily'): <http://zqrb.ccstock.cc>, <http://www.pinggu.org/bbs/b26i8094.html>. This scandal caused a big drop of Chinese listed private companies' stock prices at the time. Analysts contribute the reasons behind this scandal to capital 'vase neck' facing Chinese private companies in common, and said that this financial difficulty leads Chinese private companies towards bribing governmental officers and manipulating accounts (for one example of discussions, refers to 'Private Owned Companies Seem to Tangle with Scandals, Are There Exist Any Exceptions?': <http://www.pinggu.org/bbs/b26i8094.html>).

professionals, in order to give advice to restructure the group company, and to put the core company A1 alone into continental China's stock market. This restructuring is going to be discussed later in the current section. This event mentioned above indicates that due to external regulation, Company A has become more cautious in its economic activities. Whether this caution implies fundamental changes of Company A's financial structure and concepts or not, will be discussed in later chapters especially chapter 5. At least, here it means that external environment forces Company A to make changes to 'normalize' itself to fit the environment. Structural changes (refers to 4.3.2) as well as the implementation of management accounting (i.e. budgetary) systems 'present' Company A's image as an 'acceptable' institution and shows Company A's willingness, efforts, and degree of normalization'<sup>6</sup> towards external society. Hence, there is a causal relationship between environment and budgetary system from the perspective of 'normalization' as well. And these insights may not possibly be gained without in-depth case study.

The second relevant case evidence shows that external regulations not only impose a need of 'normalization' at the level of organization, but also impose a need of justifying towards normalization at the level of individual. During the second round of data collection in Company A, the researcher found out Mar. L, the former general manager of A1's 6<sup>th</sup> Branch Company had left Company A after the first round of data collection, to one of Company A's major competitors in the same industry (chapter 5 is going to discuss about the reason for Mar. L's leave). Through 'key event' coding method, data shows that when Mar. H recalled Mar. L's leave to Company A's competitor in an interview, in 2006, he said that 'after Mar. L joined in, the competitor company's stock price per share dropped a lot. This means that Chinese CEO's professional risk is higher now, and Chinese CEO's morality has become

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<sup>6</sup> Refers to footnote 1 of this chapter.

more important.’ This new consciousness indicates environmental factors’ power on individual key financial managers (sometimes also general managers), who in many cases are the same people most relevant with management accounting including budgetary changes. It may foresee a new era of Chinese business culture, which will be discussed in the final chapter.

In brief, both these case evidences prove that increasing external regulations and surveillance forces Company A and its managers to ‘normalize’ or ‘legitimize’ their economic behaviours. Using management accounting techniques (including budgetary system) is not only a tool to improve inner management and cost control, but also is one important legal choice for ‘normalization’ and ‘legitimization’. In this way, domestic environment serves as a driving force for Company A’s budgetary reform. However, as this transferring towards ‘normalization’ at the organizational level and the individual level is a gradual ‘process’, problems and conflicts exist which will be discussed in the following chapter.

#### ***4.3.2 Organization’s Structural Change is Often in Parallel with Budgetary Reform, but There Is A Gap between the Two in Company A***

Earlier sections of this chapter discussed that although there are environmental pressures pushing Chinese companies to self-development and ‘normalization’ by using management accounting techniques (including budgetary system), China’s relevantly stable social political environment during the last decade, opportunities brought by China’s joining into WTO, and Chinese competitive advantages in labour cost, material cost, and supporting technologies all allow Chinese electronic household appliance industry to bloom and to gain a leading

position in the global market at present stage. Since the profits earned by Chinese companies in the industry of electronic household appliances mainly stem from low processing fees, it is a common phenomenon that with the growth of companies, their sizes expand quickly. As Mar. H said in 2007, ‘in competitive industries, kicking medium to small size companies out, while keeping the large ones is normal. Household electronic appliances industry is a completely competitive industry’. During the second round of data collection, the researcher observed the debate about Shun De government’s interference towards Shun De’s electronic household appliances industry. Local scholar, Professor Li, supported the mayor of Fo shan (Fo Shan is a city which governs Shun De area)’s idea about restructuring major companies into a ‘whole’. This idea is naturally strongly against by practitioners as Mar. H., who prefers more autonomy owned by individual companies. Hence, the researcher doubted that it is ‘a completely competitive industry’ as Mar. H suggested. Nevertheless, it is true that it is one of the highest degrees of free competition among Chinese industries. Anyhow, recognizing the reality as a process of ‘big fish eat medium and small fish, fast fish eat slow fish’, how to control surviving companies whose sizes have expanded quickly becomes an important issue.

As Bruns and Waterhouse (1975) suggested, ‘a decentralized and structured organization operating in a stable organizational environment is particularly well suited to the use of budgetary control’, Company A adopted both – changing organizational structure and introducing budgetary system. Coding under the themes of ‘structural change’ and its relevance with budgetary reform presents case evidence as following.

According to Mar. H, Company A had kept changing its organizational structure in parallel with Company A’s expanding of scale. Before Company A started its budgetary reform at the

end of 2004, Company A recently finished its overall structural reform of ‘decentralization’. The purposes of Company A’s ‘decentralization’ at that time include: firstly, to maintain operational efficiency of the expanded organization without losing sufficient control. This is presumably to be achieved through distributing more resources and power to subsidiaries, while the headquarters holds the key resources tightly. This purpose overlaps with the functions of budgetary systems. Secondly, the company wanted to reduce investment risks through organizational decentralization. Although budgetary system cannot directly make Company A achieve this purpose, helping managers to make better decisions through providing bottom-up information is suggested as an important role that budgetary system tends to achieve in theoretical studies. Later chapter of this thesis will discuss about factors affecting Company A’s decision making and the relevance with the realization of real budgetary control. At this stage, this second purpose of restructuration in Company A is in no conflict with Company A’s establishment of budgetary system.

The content of Company A’s this phase of restructuring included forming a set of hierarchical and functional departments for the Group Company. Moreover, the core company A1 was divided into branch companies based on the different products they produced. Every branch company has functional divisions.

It was after these series of structural changes, and based on the achievement of decentralization of production units, Company A started its budgetary reform at the end of 2004 and the beginning of 2005. One of the major procedures of Company A’s new budgetary system based on decentralized organizational structure is requiring divisional managers to prepare divisional budgets by themselves, with the assistance of divisional

accountants. The budgetary reform in Company A was meant to accompany structural change to achieve effective control within an expanded decentralized organization. It is possible to say that without organizational decentralization, budgetary reform in Company A was impossible and unnecessary. These two processes closely knitted with each other in Company A.

However, in spite of the positive relationships between Company A's restructuring in 2004 and Company A's initiation of budgetary reform, there is a gap between Company A's start of budgetary reform and structural change, both in time and in effectiveness. This gap affects Company A's achievements of effective 'decentralization' for the purpose of better control. For example, according to the researcher's field observations in the 6<sup>th</sup> Branch Company of A1 during the first round of data collection, just after Company A started its budgetary reform after structural decentralization, Mar. L, the general manager at the time, partly ordered figures for his divisional managers during budgetary conferences, instead of preparing budgets based on 'real information' from divisions. Budgeting was still mostly a top-down process within the 6<sup>th</sup> Branch Company of A1 at that point of time, instead of a thoroughly 'decentralizing' process accompanying the 'decentralizing' of the organizational structure. Through further coding towards the reasons of this phenomenon in the 6<sup>th</sup> Branch Company of A1 in 2004 and 2005, case evidences show that managers' (both general managers and divisional managers) and major accountants (both chief accountant of the Branch Company, Mar. X and divisional accountants)' lack of understanding and experience of modern-term budgeting is the key, though the general manager and the branch company's chief accountant had a relevantly higher degree of understanding about the necessity of doing budgets at the time.

In more details, among the budgetary conferences between the general manager and 6 divisional managers of the 6<sup>th</sup> Branch Company of A1, one divisional manager needed to redo the budgets since he only presented vague estimates, one divisional manager couldn't reach agreement with Mar. L on the cost of machine repairing, one divisional manager needed to do further investigation before working out the budgets since the number of the staff and facilities were going to be increased. For the other three divisional managers, Mar. L found that an 'efficient' way to gain 'progress' through the budgetary conferences was to bargain with the divisional manager about the sum of HR expenses (salaries). The bargain process was based mostly on the general manager's personal will rather than pre-conference investigation (refers to box 4.1). Chapter 5 and 6 are going to discuss further about the reasons and consequences of this issue.

***Box 4.1 Mr L (the general manager of the 6<sup>th</sup> Branch Company of A1) did budgets by Simply Reducing Salaries According to His Personal Will, Data Drawn from the Field Notes about Budgetary Conferences of Mar. L, the General Manager of A1's 6<sup>th</sup> Branch Company Then, with Mar. X2 (Manager of the Department of Maintaining and Repairing Facilities), Mar. L2 (Manager of the 3<sup>rd</sup> Department), and Mar. J (Manager of the Department of Material Manufacturing), in 2004:***

In Mr D's original budgets, the monthly salary of a divisional director was 3,000.0 RMB per month, the monthly salary of a technician was 2,200.0 RMB per month. Mr L suggested them to be 2,200.0 RMB and 1,800 RMB, respectively. After the negotiation, they agreed to fix the salary rate as 2,800.0 RMB and 1,800.0 RMB monthly. These were the main content of their budgetary conference. The process of the meeting in the 3<sup>rd</sup> division was similar with the process in the 2<sup>nd</sup> division recorded above. The expense on human resource was reduced from 480,000.0 RMB to 426,000.0 RMB during the meeting. Although the meeting was helpful since they would save 54,000.0 RMB just for the HR expense of the division for the coming year, Mr L himself became tired after going through the budgets and arguing with managers. The meeting ended to be a simple check of the salary standards and a reduction of figures. In the budgetary conference between Mr L and the manager of the department of materials' manufacturing, Mr L simply forced Mr J to fix the figure. Then, the total budget was reduced from 279,000.0 RMB annually towards 246,600.0 RMB annually.

Moreover, according to the first round of data collection, in 2004 and 2005, there was not only a gap between Company A's budgetary reform and structural change in achieving organizational decentralization while maintaining control, but also disputes occurred during the procedure of structural change itself, which had not been properly resolved. Box 4.2 underneath shows an example of conflicts happened during Company A's structural change observed in 2004. If it is not prudent to say that conflicts took place during Company A's restructuring in 2004 affected the effectiveness of Company A's budgetary reform, then at least case evidence shows that the conflict of group interests intensified (or be drawn to the surface) by Company A's restructuring. This strengthened tension outlined the organizational background of Company A when this group company started to introduce budgetary reform. Chapter 5 of this thesis is going to discuss further about the contextual structures of politics and culture and their relationships with budgetary system in Company A.

***Box 4.2 An Oral Conflict in Mar. H's Office Concerning Structural Change in Company A, Data Drawn from Observations in 2004:***



The researcher also witnessed an intense oral conflict in Mr H's office. An auditor argued with him about a copy machine. This was concerned about the resource re-distribution after the restructuring of the company recently. It was scary. The researcher felt headache because it was really loud and intense. But it was indirectly relevant with Company A's budgetary reform. Also, the researcher found out the auditor herself was trained and promoted by Mr H. And their 'judge', a lady who was graduated from MBA program in Durham University, became an employee of Company A recently after being interviewed by Mr H.

The auditor: Mr H, he (refers to a manager not present during the quarrel) got the copy machine after the re-structuring of the company. You know that, this copy machine belongs to the whole company, not his department.

Mr H: That is fine.

The auditor: That is wrong!

Mr H: Take it easy this time, OK?

The auditor: Mr H, you know that he is wrong. The machine doesn't belong to his department, the rights of properties have been clearly stated when we restructured the company. He should be punished for his 'stealing' behaviour. If everybody behaves like that, how can we auditors carry out our daily work?

Mr H got annoyed: Who said so? Who said that he has to be punished? Who said so?

The auditor got angry and tried to argue.

Mr H started shouting. And they argued fiercely after that for quite a while...

The auditor: Mr H, I was brought into this company by you, and it was you who have promoted me into this position. Most of Company A's staff doing jobs of finance or accounting have similar experiences with me. You taught us how to do things. That is why we do respect you. But this man is wrong.

Mr H: It is just a machine. He is a very competent man, and he is important for our company at the moment. Every person makes mistakes. I will handle it based on my own judgment.

The auditor: That is stealing, he should be punished...

According to data collected in 2006 and 2007, Company A hired professional consultancy company to help it to further restructure<sup>7</sup> in order to satisfy the requirements of going into the

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<sup>7</sup> This thesis calls this phase of Company A's restructuration (starting from 2006 and went through 2007) as the 'second round/ phase of restructuration' to distinguish it from the first round (which took place around 2004). However, it is to be noted that although according to Company A's strategies, there were clear boundaries in these two rounds of restructuration both in time and in

stock market. As a result, the whole company was separated to Aa which includes the core manufacturing company A1 and A1's branch companies, and the Investment Group Ab which includes subsidiary companies. Ab is in charge of the external expansion, and Mar. H became the general manager of Ab. His power in Aa (including A1) diminished. Instead, Mar. J2 is fully in charge of the budgetary system and other financial and accounting systems in Aa which were initially set up by Mar. H.

On the one hand, this further restructuring of Company A has positive influences in budgetary practices. Mar. H has been buying new companies for Ab within the two years after Company A started budgetary reform, and then budgetary system and other management systems or techniques had been spread into these new companies by appointing and training managers, introducing and training chief accountants, setting up budgetary rules, and communicating through conferences or personal negotiation. Most of new companies Mar. H bought for Ab in recent years, used to have no concepts of budgetary system. Planting the more advanced producing line, budgetary system, and other management devices into these new subsidiary companies of Company A, have kept production management on the right track, improved productivity, and increased efficiency and profits in general. Box 4.3 underneath illustrates an example of these positive changes in Company A's budgeting brought by the second round of re-constructing.

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content, in reality re-structure is a continuous process to adapt the organization into the external environment.

K.J. used to be controlled by Company A and other investing companies together. Recently, Abs bought over shares of other shareholders and independently owns K.J. Ltd. So K.J. now is a subsidiary company of Ab produces electronic blenders. It also has sales relationship with A1 Ltd.

...

The researcher: How many employees K.J. has at the moment?

Ch: Over 200 in total. The number will be doubled next year. There is no detailed statistics about each department at the moment.

The researcher: Why?

Ch: We just bought the factory in. It used to be a very simple workshop. Next year we will put in three or four million RMB for the machines in the factory. So we need more employees.

The researcher: What about the monthly payments for the employees at the moment?

Ch: A class monitor gets 1,700.00 RMB per month while a worker gets 1,200.00 RMB to 1,300.00 RMB per month. It also depends on the type of work and the season. For the packing department, the salaries are lower while for the welding department, the salaries are higher. And during busy seasons, the salaries are higher.

The researcher: In spite of getting more employees and better machines, what else would you do? For example, how do you improve management? I asked about standard producing capacity in the factory just now, do you remember?

Ch: For example, after taking it over and installing new production lines, we will test standard producing capacity. If we test it to be 10 pieces per minute, then it will be 600 pieces per hour and 4,800 pieces per 8 hours in total. With a discount rate of 80%, it then becomes 3,840 pieces per 8 hours. Based on these, we will distribute tasks per day. Extra performance will be rewarded by piece.

The researcher: What about extra working time?

Ch: Normally workers work 2 hours extra per day. They are rewarded by piece as well.

The researcher: Do you budget in KJ?

Ch: I'm in charge of it. Just after I came to this subsidiary recently, the first big thing for me is to do the budgets.

...

The researcher: What are you going to do for KJ during the year 2007?

Ch: We have to advertise for more employees, to change security guards and to install CCTV.

Me: CCTV for surveillance?

Ch: Yes. It's more psychological than practical. We will not adjust the total budgetary objective. We will give rewards or punishment after every three months. I have to set up new documents, or to develop existing ones to guarantee producing capacity and to improve budgets.

*(Above is Box 4.3 Positive Changes in K.J. Subsidiary after Company A's Further Restructuring, Data Drawn from an Interview with Mar. Ch (the Production Manager), in K.J. Subsidiary Ltd. of Ab, 2006*

On the other hand, problems of this further restructuring rise, since there lies a gap in the development level of budgeting and management between A1 and the recently bought subsidiary companies. This gap reveals and further complicates the cooperating yet competing relationships among A1 and the subsidiary companies. Not only A1 has more implemented budgetary system and other management systems, but also A1 is given privileges by the group company. Moreover, A1 Ltd. faces external customers only while other subsidiary companies of the Group Company A not only face external customers, but also have to compete among themselves and to compete with external companies to be the suppliers of A1 Ltd. Box 4.4 underneath shows the competing relationships among subsidiary companies.

***Box 4.4 Subsidiary Companies Compete for Tasks from A1, Data Drawn from an Interview with Mr. Ch, the Production Manager, in K.J. Subsidiary Company of Ab, in 2007:***

... Ch: However, some unfair quotas do exist. For example, the production quota is decided by the marketing department which accepts the orders from the customers. We principally can't interfere with it. And we can only finish what we have in hands, even if we have spare capability of producing more products. Sometimes I go to talk with the customer managers to see whether they need us to do more orders. We also actively ask branch companies of A1 to permit us to make new models and to produce other kinds of products for them, instead of producing egg beaters only.

The Researcher: What do you mean by asking branch companies to permit KJ to produce some other products? Although both belonging to Company A, you two are basically independent companies, aren't you?

Ch: Factories at the same level compete for tasks, and the ones with better technology and cheaper prices win. ...

Concerning data shown in box 4.4 above, the overall objective Group Company A intends to achieve by restructuring the organization and spreading budgeting into new parts of the group company is to reduce the cost of Company A1, and to stimulate creativity and liveliness of the other parts of the group company. Company A tends to realize this overall objective through promoting healthy competition while still keeping a certain degree of team work among them. However, sometimes A1 overuses their privileges and tries to let other counterpart companies carry A1's burden of keeping out-of-date machines. A1 then can reduce its costs and then perform 'better' budgetary implementation by sacrificing other subsidiary companies' success in achieving budgetary objectives. This behaviour doesn't help the group company as a whole and it causes conflict. To resolve the conflict by considering the group company's benefit and maintaining fairness among different parts of the group company, Mar. H encourages subsidiary companies to offer A1 favourable prices

for in-company selling of products, but to refuse unreasonable burden from A1 firmly. As A1 is said to be more advanced in its overall management, Mar. H encourages newly joined-in subsidiary companies to learn from A1 in its more implemented systems, and to be active and confident to compete with A1 in the external market. As a high level manager in Company A, Mar. H's solution in this situation channelled vicious competition and potential negative influences might brought by it towards a healthy direction of cooperation and development. Box 4.5 underneath illustrates details of in-company conflicts after Group Company A's further restructuring in 2006 and 2007, as well as Mar. H's countermeasures. This case evidence serves as an empirical example that although problems do occur which may deviate Company A from its original intentions of restructuring and budgeting, these problems don't deny the necessity of these organizational changes. Well-informed managers can recognize these problems and hence channel the problems into creative solutions. Budgetary conferences can become one of the important ways for managers to communicate with junior employees, to recognize the problems, and then to guarantee the original purposes of budgetary system and restructuring to be achieved.

***Box 4.5 An Example of In-Company Conflicts (between A1 and Q. L. Ltd.) after Company A's Further Restructuring in 2006 and 2007, and Mar. H's Countermeasures which Directed Potential Vicious Competition to a Virtuous Direction, Data Drawn from Participant Observation about Ab's Second Grade Budgetary Conference in Mar. H's Office, on March 2<sup>nd</sup>, in 2007:***

The general manager from Q.L. Ltd.: For the year of 2007, the boss requires Q.L. to earn money. However, there is internal conflict. At the start of last year, the 6th Branch Company of A1 Ltd. found an external factory, instead of Q.L. Ltd., to purchase products from. When some problems occurred at the year end, the 6th Branch Company abruptly turned to buy things from Q.L. In this situation we require raising the prices with the 6th Branch Company.

H: I suggest you to investigate the purchasing prices the 6th Branch Company offered to the external factories. This is important to you. The industry of compressors requires big investment. We invested tens of millions in every factory of compressors. If the price is reduced too much, there is no money to be earned considering our big investments. The net profit should be between 10 to 20 per cent, and the processing fee should be around 35% of the profit after sales. So keep these in mind, and try to find out their purchasing price from their sales people.

...

Since normally A1 Ltd. buys 30% of your products, you should discuss about the price monthly with A1 Ltd. The price you offer to A1 shall be 8 % to 10% less than the price you offer to the external market. By doing so, we compromise some profits to A1 since A1 is the core part of the whole group company which we should support.

As for the external market, your company should raise the price higher. You can report the price 5% to 8% higher than the targeted price, when you are negotiating with the customers. By doing so, even if the price of copper increases, you still can earn money.

I suggest you to discuss with A1 Ltd. monthly about these matters, to see whether you both can find a certain mode of doing business. About the models, you shall not bear the burden of their costs if you operate in the model products as one of your businesses instead. For this issue, you can investigate the prices of A1 and try to offer a lower price than theirs to sell them.

...

H: We (Ab) should improve the independent ability of operating, not managerial ability alone. At the end, we are doing business here. For example, we should liberate Q.L. Ltd. from only being the 'processing factory' for A1 Ltd., and push Q.L. to expand its external market. Dehao Runda Ltd. in our industry also produces replacements of vehicles. Actually, only if we actively face the external market, we then can strengthen the ability of resisting the risks.

...

The general manager: ... If we don't need to carry the burden of models and just do the processing, it will be much better for us. A1 sold us their old products (models) which worth more than 5 million RMB. We don't need so many models. Many of them are spared and they don't produce anything at the moment. But we still have to pay A1 for them.

H: Next time if A1 tries to ask you to accept the models again, don't take them. A1 Ltd. has good performance. They achieve such a good level of income by sending you those old machines.

Ms Liu: Yes, the heaviest burden of Q.L. is the models. And this burden has become heavier and heavier annually. If we don't have such a burden, we can accomplish our targets.

H: This is a historical burden -- accomplishing this task for A1. As for the major business of your company, the portion normally should be 4:3 (for the material):3(for the processing fee).

Mr Zh (an engineer from Q. L. Ltd.): In the future, if they pay us, then we will work. If they don't pay us, we won't start working with the models and we won't compress for them.

Ms Liu: The expense of materials is more than 1 million RMB, and the expense of the models is more than 400,000.0 RMB.

H: Ha ha, that's why we say that our relationship with A1 includes both cooperation and competition. OK. To motivate Q.L. Ltd. to change the thoughts to learn to earn money, to strengthen the consciousness of profits, and to transform towards the direction of operating independently, the basic award is 8% within the target. If the achieved performance exceeds the target, the award then also includes 3% beyond the target. Last year, the profit was 2.2 million RMB, and the awards should be 17,000.0 plus 10,000.0 RMB. High level managerial staff wouldn't participate in the basis award, but they participate in the exceeded award.

Ms Liu: If it was not because of the models, we could have achieved 3 million to 4 million RMB.

Another man from Q. L. Ltd.: Yes, we still carry the burden of old models by ourselves.

Another woman from Q. L. Ltd.: Then we should increase the price of our products to redeem the loss because of the models.

H: Yes, never stop discussing the prices with them. Even when they get tired of it, you should never get tired of it.

Another man from Q. L.: In brief, it is unacceptable if the financial index is negative for us. (Swearing) Those models cost more than 5 million RMB. The reason for refusing them is that we don't produce products using those models at all!

Ms Liu: Yes, we were totally controlled by A1 Ltd. last year, and we were only a manufacturing factory for them.

H: You always do the services for them. Actually they only pay attention to the partial benefits. Games, these are all games! You should know that even we both belong to the same group company, there are still differences between the two, and you should ask for profits. What about the external market then?

*(Page 2 of Box 4.5)*



H: You should not avoid doing it only because that there are problems. It is just like you should not avoid planting in the farm because there are worms. You should not see the risks in this way. For example, K.B. kept losing money in the 6 months of last year. The dilemma they faced was either to dissolve the company or to turn the situation into profitable. Thus K.B. Ltd. decided to turn the focus to the external market. 70% of their business was towards the external market, which made them earn millions of RMB. 30% of their business was towards A1 Ltd, which brought them a bad account of 80,000.0RMB. At the end, K.B. Ltd. over reached the budgets. Moreover, K.H. Ltd. had a bad account of more than 1 million RMB last year. But at the end, K.H. still earned money. That is why I say that the risk is controllable.

...

Mr Zhou from W.Lg. Ltd.: According to this thought, we have the confidence to do it well. We will handle the part of models well before June. We will rent a shop in Long Jiang, find 2 employees, and we can start selling things from the next year.

H: You should start the business of the external market immediately. You should not wait until the next year.

Mr Zhou: The industry of household electronic appliances is very sensitive. People quickly copy what we do.

H: There are several large outlets for the compressors in Wu Sha. You should go to see whether they have undigested orders, and we can finish the orders for them. For the first several orders, I can go together with you to have a look. You should start doing the things first. And then we can build up systems, like information system...

*(Page 3 of Box 4.5)*

In brief, according to data collected in the second round of this study's data collection, from the perspective of in-company conflicts, although there are problems between A1 which is the core company of the group, and newly bought subsidiary companies, directing subsidiary companies to handle these conflicts with confidence and tacit can channel competition towards a healthy direction. Weighing the advantages and disadvantages in this situation, Company A's further restructuring during 2006 and 2007 re-combed internal relationships of further expanded Group Company A. Also, the lag between A1 (which belongs to Aa after further restructuring) and newly bought subsidiary companies (which belong to Ab after further restructuring) concerning managerial systems (including budgetary system), motivates

new companies to learn after their better developed counterparts, which in turn benefits the group company as a whole.

However, from another perspective of normalizing Company A's financial structure to satisfy requirement of the stock market, data reveals a difference between what Company A present as 'façade' and what substantial changes Company A's made. For example, according to a phone conversation between Mar. H and an anonymous person, observed during the second round data collection, it was learned that at least one subsidiary company of Ab is registered only for the purpose of adjusting financial figures and playing the games of tax when it's necessary. In other words, this certain company doesn't contribute to products output or marketing sales in reality. Instead, it is a fake one – an empty 'shelf'. Next chapter will discuss further about these 'pseudo' changes and the reasons behind them, while this current section only focuses at restructuring and its relevance with budgetary systems in Company A.

In summary, improvements, deficiency and problems exist in Company A's structural change prior to the initiation or the deepening of budgetary reforms. Two round of this study's field work in Company A provided opportunities to observe two important phases of Company A's structural changes. Scale expansion to maintain profit level, necessity of self-development reinforced by environmental pressure, and external requirements of regulating and normalizing are all motivations for Company A's structural changes. Before the end of 2004, Company A had gone through structural change aiming at keeping crucial resources and information in control while decentralizing the whole company. According to previous paragraphs of this section, due to lack of understanding towards the content and use of modern-term budgeting, although structural change was meant to accompany Company A's

start of budgetary reform, there was a gap of time between the two. Moreover, they together didn't achieve better control by decentralizing to the degree which was originally intended, because the budgetary process between general manager and divisional manager in Company A was still a top-down process in 2004 and the 2005. Real information could not be gathered for senior management's better decisions and better control due to this reason, together with other reasons including a lack of understanding in what real costs are, and what does modern budgeting really means! Moreover, conflicts observed in Company A at the time revealed departmental conflicts intensified or be brought to the surface by structural change which wasn't properly resolved. They revealed the negative elements in the background of Company A's budgetary initiation.

Also according to analysis in previous paragraphs of this section, Company A's further structural change has brought positive changes to newly invested subsidiary companies, because Company A has spread budgetary system and other management techniques to new companies. Although these newly planted systems are not 'perfect' themselves (which will be further discussed in later chapters), it was a fact that they were much more advanced than what these newly bought companies or factories used to have before. Hence, planting budgetary systems and other management techniques has obviously increased the producing capacity and management efficiency in new plants. Also Group Company A's strategy towards A1 and subsidiary companies' relationships after second round restructuring in 2006 and 2007, together with high level managers (including Mr H)'s guidance, have leaded Company A's internal buying and selling relationships towards a virtuous direction, which in turn will influence the power structure of the group company and Company A's overall capability of actively facing the external environment in a long run. Nevertheless, despite 'façade' structural changes and a sequence of managerial and relationship changes followed

by it, whether Company A has fundamentally regulated its financial structure in parallel of structural change or not, remains a question which will be further discussed in further chapters.

### ***4.3.3 Changes of People's Concepts towards Budgeting in Company A***

The change of the concepts is both the cause and the result of the budgetary reform and other relevant changes happen in Company A. The longitudinal nature of this study provides privileges of observing the continuing change (or not change) of people's concepts and the intricate tapestry of conceptual changes (or maintenance of concepts) with other perspectives of the organization. As it has been mentioned in previous section, external environment pushes top level management of Company A, who are more concerned about Company A's strategic survival and future development, to realize the necessity of using authority (government and public) approved legal management techniques to develop the company. Budgetary system is used as one of the first modern term management accounting system in this situation. As it has been mentioned in previous section, with the accompaniment of structural decentralization, Company A's top level management starts pushing budgetary system to junior branch companies. This encountered obstacles at the divisional level especially due to divisional staffs' resisting attitude towards this new system in 2004 and 2005. Also general managers and their seniors had confusions towards budgeting at the time. Nonetheless budgetary system had been used in Company A ever since due to its function of planning and cost control. Company A also spread the concepts of budgetary system towards newly bought subsidiary companies in 2006 and 2007. It can be said that people's acceptance of budgetary system in Company A is a result caused by a joint force of external environment

and internal promoting from the top management level. While chapter 5 is going to talk about contextual factors influencing conceptual changes, chapter 6 is going to illustrate more details about concepts concerning how to use budgetary information, how and why in fact these conceptual changes have happened or have not happened, current section only presents some findings illustrating conceptual changes in Company A as the first level of data analysis concerning this issue and a starting point for further analysis.

First Stage: Before the budgetary reform started in Company A, it was only Mr H who did brief operational budgets for the group company as a whole and sent them to the board of directors to review. The ‘modern’ concept of budgeting was basically irrelevant with people’s life in Company A then. Second stage: from around Oct., 2004, Company A started its budgetary reform. This transitional point of concepts towards budgeting in Company A was observed, during the first round of data collection. The board of directors simply supported Mr H’s suggestion of budgetary reform since they thought that ‘something’ should be done to resist the increasing environmental pressure, and they trusted Mr H’s expertise. Mr H, the key initiator of the budgetary reform in Company A, was in charge of key financial and accounting issues for the whole group company at that time. According to interviews of this study, Mr H was very decisive and passionate about Company A’s budgetary reform in 2004 and 2005. He valued budgeting beyond other perspectives of inner management at that time and said, ‘when improving the inner management, budgeting is the “root” (in another term, “objectives”), while other aspects (i.e., management strategies) are “branches” (in another term, “techniques”)’ (data drawn from an Interview with Mr H in Nov., 2004)<sup>8</sup>. He also

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<sup>8</sup> Mr H valued budgeting beyond other perspectives of inner management here. It not only reflects his own concepts at that point of time, but also Mr H used this concept as a ‘slogan’ or ‘declaration of attitude’ to promote budgetary system – a system initiated by himself in Company A. In other words, Mr H’s distinction between budgetary system and other management techniques as ‘roots’

theoretically realizing that budgetary system should work better if it incorporates all parts of the group company together, but it was rather an intelligent person's instinct and talk, than a fulfilled reality at that time. His 'all inclusive' idea about budgeting in 2004 can be reflected in box 4.6 underneath. Comparing with his peers in Company A, Mr H's understanding of budgetary system was more advanced (following chapters will discuss about limitations in his concepts though).

Mr J (the head of Financial Management Centre of Company A, in 2004 and 2005, later became responsible of Aa's Finance and Accounting after Company A's further restructuring in 2006 and 2007) was in charge of the detailed work of the budgetary reform of the group company when the first round data collection of this study was carried on. During an interview with him, Mr J looked tired because of the difficulties and resistance he encountered. Nevertheless, he insisted that the budgetary reform was what they had to do, and the situation was getting better and better.

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and 'branches' is used by him as 'rhetoric' or 'discourse' for Company A's start of budgetary reform. Chapter 7 of this thesis is going to further discuss the influences of 'rhetoric'/ language/ 'discourse' in Company A's process of budgetary reform.

***Box 4.6 Mr. H's 'All Inclusive Idea' about Budgeting, Data Drawn from 'An Informal***

***Chatting with Mr. H on the Way to the 6th Branch Company of AI and the Way back home', in Nov., 2006:***

H: After these years' working experience, I have some ideas about budgeting. The best budgeting should incorporate all the aspects of the company together --- producing, selling, and managing; technology and structure; subsidiaries/ branches and headquarters; and so on.

The Researcher: This sounds the same with the idea in management accounting theory.

H: Really? They also think like this? (A bit surprised and proud)

The Researcher: Yes, perhaps the practice and the theory mainly develop to the same direction.

(Interestingly, Mr H's insights gained from experiences appear to be similar with Western 'conventional wisdom' in the idea of 'overall budgeting'. However, Mr H's surprised reaction towards the 'agreement' between the two also suggested that, he may not had received proper theoretical training in budgetary control himself, before he started the budgetary reform in Company A, if his reaction recorded above was honest. What about his junior managers' previous training about budgetary system then? It is not hard to tell...)

'Everything needs and has a process', he said. As Mr H's represent a key figure in Company A strategically guiding and promoting budgetary reform, Mr J. represent a crucial 'doer' in charge of carrying out budgetary reform in Company A. According to Mr J's interactions with general managers, he told the researcher that the situation of budgetary reform in the 6<sup>th</sup> Branch Company in 2004 and 2005 (mentioned above in this chapter) are very typical. 'Other branch companies' situation are very similar (to the 6<sup>th</sup> Branch Company)', Mr J said. Hence, observations gained from the 6<sup>th</sup> Branch Company is able to be considered 'representative' concerning Company A's budgetary system change in general. The example of 6<sup>th</sup> Branch Company therefore will be used again in later chapters as a focused studied case reflecting Company A's budgetary system changes.

Concerning people's conceptual changes in the 6<sup>th</sup> Branch Company of A1, serving as a representative case for secondary manufacturing companies in Group Company A, at the end of 2004, the general manager <sup>9</sup>of the 6<sup>th</sup> Branch Company, Mr L, theoretically understood the necessity and basic content of budgeting. He knew that it not only could help managers to grasp information about financial expenses and incomes, but also can help managers to gain better 'bottom up' control. He was able to use simple words to explain these concepts to junior divisional/ departmental managers. For example, Mr L told Mr Lv, the manager of the engineer department that, 'doing detailed budgets by you as a departmental manager can enable you, for example, to buy a large quantity of material at a more reasonable price every time because you would know how much you need to buy in advance with the assistance of budgets, and in this way it makes things easier to be controlled. In case (your department) has to use extra money above the amount of the previous year, the detailed budgets can also make it easier for you as a departmental manager to explain to the headquarters for permission of money' (quoted from data recorded during a budgetary conference between Mr L and Mr Lv, in Nov., 2004). These all reflect that as a representative of middle managers in Company A at the end of 2004, Mr L's concepts towards budgeting shows no difficulty in understanding the necessity of doing budgets.

Mr X was the major accountant of the 6<sup>th</sup> Branch Company at that time. He assisted the general manager in the budgetary reform. His concepts towards budgeting when budgetary reform started in Company A were similar with Mr L. Not only they both accepted the necessity of budgeting, but also they showed a keen interest in learning more about budgeting. Mr X knew that budgetary reform was needed because the company had to do something to

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<sup>9</sup> This position in Company A is equal to the term of 'middle manager' or 'middle level manager' in Western text books. The same applies to Company B studied in this research project.



survive, but he was worried about some of the departmental managers' hostile attitudes towards the budgetary reform. Despite Mr L and Mr X's shared acceptance in doing budgets, their deeper understanding and 'real' behaviour about budgeting (refers to box 4.1 above as an example) are going to be discussed in later chapters of this thesis.

Concerning about the concepts of departmental managers of the 6<sup>th</sup> Branch Company towards budgeting, they rather showed a less welcoming, or even hostile, attitude towards the reform. Although the general manager and the major accountant tried very hard to persuade them, most of these departmental managers didn't even understand the necessity of doing budgets, and let alone how to do it. Box 4.7 underneath is going to present the concepts of the departmental managers at the time. It is to be noticed that, according to the participant observation, though bearing a lot of resistance and disagreements, most of the departmental managers in the 6<sup>th</sup> Branch Company were genuine and frank. So did the general manager Mr L. As far as it was observed, the disagreements were not due to personal conflicts. Only one out of six general managers expressed that he wanted extra money to be kept in the 'pocket' of his department, by manipulating the figure of employees. The general manager, Mr L, despised this type of behaviour and simply forced this departmental manager to do a more honest budget. The supervision style of Mr L, performance measurement, and the way of communication are to be discussed in later chapters of this thesis.

***Box 4.7 Company A's 6<sup>th</sup> Branch Company's Departmental Managers' Concepts about Budgetary Reform at the end of 2004, Data Drawn from Budgetary Conferences between***

*the General Manager and Departmental Managers, Observed in Company A's 6<sup>th</sup> Branch*

*Company, in Nov., 2004<sup>10</sup>:*

... Mr Lv from the engineering department was confused about the budgetary reform. He could not really understand it. In fact, he acted against the reform. He said that, 'people dealing with financial affairs always like to idealize the numbers'. He said that he did not like to be 'designed by numbers'. ... As a result, he did not do his budgets well and just send some vague sum figures instead. ... Mr Lv suggested doing the budgets by simply multiplying a certain number with the figures of the previous year. ... Later during the break, Mr Lv kept complaining about budgeting to the researcher....

Mr F from the quality control department became nervous and tough when the agreement could not be reached (between him and Mr L) about the cost of machine repairing. He insisted that the general manager should give him a number, and then he would 'do his job just following the guidance of the number'. He said that nobody knew that how many machines would need to be repaired, and nobody knew how much money have to be spent on it. Also the expense of every office 'could not be standardized, since there are differences between divisions'. 'Budgeting is just a table, a table with some figures.' Mr L became angry with him at the end. He said, if Mr F could not do budgets in proper ways, he would change the divisional manager. ... As far as the researcher is concerned, Mr F is not that kind of 'bad' employee. He is a professional engineer, knowing the machines well and has been working seriously. That is why he is respected by his fellow workers in his department. This middle-aged, responsible man told the researcher later after the budgetary meeting with Mr L, "I don't mean that I don't like budgeting, I just think that it makes us feel more convenient to control by giving us a fixed quota." ...

Mr J2 from the department of materials' manufacturing is a Cantonese man, cunning. His only purpose for the budgetary conference with Mr L was to gain more money from the latter. Mr J2 even wanted to create 'fake' job vacancies because of this reason. He asked for salaries higher than the average level. Mr L commented that this kind of bargain with this person was 'meaningless'. So he forced Mr J2 to fix the figure. Then, the total budget was reduced from 279,000.0 RMB annually towards 246,600.0 RMB annually. ...

Third Stage: According to data collected in the second round of this study's data collection, the 'atmosphere'<sup>11</sup> about budgeting in Company A was obviously improved two years after

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<sup>10</sup> Hofstede (1969: p.13) defined 'the conflict between control and autonomy' as 'precisely the conflict between the degree of control available to each member of the organization and the degree of control desirable to him', and emphasized in finding 'an optimal balance' of the two. In Box 4.7, Mr Lv's resistance towards being 'designed by numbers' and Mr F's preference of being 'more convenient to control by giving us a fixed quota' rather reflect their lack of understanding of budgetary control. The former regarded his role in budgetary system as passively being controlled by 'figures', instead of actively seeking his own control towards 'figures' through budgeting; the latter chose to give up his role of control through budgeting, and literally preferred to be controlled instead. Hence, the central issue concerning 'control' here is how to enable managers to learn to use financial/ accounting information for their own managerial decisions.

the start of its budgetary reform. For the group company as a whole, budgeting as a procedure had been imprinted in the group company's operation. The importance of budgeting had been raised to a higher level of formality. As an evidence, in Jan. 16<sup>th</sup> 2007, 'Group Company A's Year of 2007 HR Appointment Ceremony, and Signing Ceremony for the Budgetary Responsibilities' were observed as part of the second round of data collection. There was no signing ceremony for budgeting in 2004 and 2005. After the CEO announced the tasks of 2007, and one of the shareholders announced the HR appointment of high level managers, the shareholder then said, 'budgeting is closely related with the industrial development. The heads of each branch company, subsidiary company, and invested company all need to look at it seriously.' Mr H did a budgetary report for the whole group (excluding A1 Ltd.). The details of this report can be referred to in the text document Box 4.8.

This ceremony shows that budgetary system is regarded to be of the top level importance in the Group Company A. Moreover, it shows that budgeting now has been incorporated with the strategy and overall management of the group company. Managers at different levels all have clearly stated responsibility of their relevant parts of budgeting. The formal ceremony itself functions as one of the means to create the 'atmosphere' of budgeting and to shift the importance of budgetary system to a higher level in Company A through 'formal procedures' and 'routine's, which will be discussed again in later chapter of this thesis. In spite of the change of 'atmosphere', whether there are fundamental development of budgetary control or not in Company A will also be further discussed in later chapters of the current study.

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<sup>11</sup> Concerning 'atmosphere' about budgeting, Hofstede (1969: p. 6) reinforced 'the creation of a game spirit or an atmosphere of sportsmanship around attainment of budgetary goals.' About how to create this atmosphere, Hofstede (1969) further explained that 'the game spirit represents motivation of the budgetee "from within". It depends strongly upon the leadership skills of the budgetee's superior, but also upon the way the system is organized: it presupposes a certain amount of free scope and the absence of rigidity, because a game requires a free area to play in.'

***Box 4.8 Mr H's Budgetary Report for Group Company A (excluding A1 Ltd.), Data Drawn from 'Group Company A's 2007 HR Appointment Ceremony, and Signing Ceremony for the Budgetary Responsibilities', on Jan. 16<sup>th</sup>, 2007:***

...In 2006, the budgetary practices of the investment company are like this: in spite of the external pressure caused by the raw materials, energy, and RMB, we still have achieved outstanding achievements. The output steadily increased, the level of the products' quality improves, and the degree of customers' satisfaction increased. We have exceeded the budgetary objectives of the sales (the sales achieved is 530,000,000.0 RMB in total, 118% of the previous year rather than the budgeted 60% of the previous year) and net profit budgets (146% of the previous year, rather than the budgeted 129% of the previous year).

Operational strategy and the goal of 2007: by the end of 2005, main projects of the group were developed based on A1 Ltd. We used to be lack of the team spirit. Also, we used to rely on internal resource and market.

In 2006, we set up the external bidding system. To save K.H., K.B., and K.Lg. from the situation of bad accounts, we set up the strategy of uniting each other closely to face the external competition. First, we turn ourselves totally to the market. Second, we relied on human resource and teams. Third, we expanded the scale and practised the internal transfer of profits for profit maximization. Fourth, we used procedures and figures to manage the operations.

For 2007, the overall strategy of the investment company is "optimizing the resources (customers, suppliers, and human resources), focusing on innovation (A1's products as an example), balancing the internal and external (for example, we pay attention to supporting companies who produce fittings, and we improve our ability of quality control and management.)

The budgetary objectives of 2007 include 1.7 billion RMB for the sales, and 42,800,000.0 RMB for the net profit. We have set the budgetary targets for each individual company belonging to the investment company. ...

For the individuals in Company A, data collected during the second round of data collection show that, from top to down, everybody accepted the fact that they should do budgeting. Company A's employees now have got used to budgeting and have generally recognized that they should do it. Resistance about the necessity of budgeting, from the departmental managers' level especially, vanished.

Current section 4.3.3 introduced Company A's conceptual changes in budgeting at three stages of time: just before the budgetary reform started; just after the introduction of budgetary reform in Company A; and two years after the introduction of budgetary reform in Company A. According to this longitudinal case study, firstly, Company A's attitude towards modern-term budgetary system has changed from not knowing about budgeting; to accepting budgeting at higher level management (including shareholders, CEO, key financial/accounting managers, general managers and their assisting chief accountants), but resisting budgeting at lower level management; then to generally accepting it and generally regarding it as important. Secondly, data also shows Company A's tendency towards more and more comprehensive understanding towards budgeting through years. These both help the budgetary system finally to be set up as a 'taken-for-granted' procedure in the whole group company. However, the changes of people's concepts about budgeting in Company A is not a smooth 'from zero to perfect' process. Instead, there are limitations in people's understanding towards budgeting, there are contradictions between people's words and behaviours, and there are conflicting opinions among individuals. These problems, together with their reasons and consequences, as well as how and why some changes have successfully happened while some other changes have not succeeded are going to be discussed in later chapters of this thesis.

#### ***4.3.4 Changes in Performance Evaluation and Measurement in Company A***

First stage: before the budgetary reform in Company A, it was not likely that budgetary completion was relevant with employee's performance measurement. Second Stage: at the start of the budgetary reform in Company A, very few data could be collected about performance measurement, due to the lack of regulations and the starting stage of relevant

practices. It was observed though Mr L (the general manager of A1's 6<sup>th</sup> Branch Company in 2004 and 2005) 'threatened' that, he would ask one departmental manager to leave if this manager kept resisting budgeting. It was only learned later that Mr L himself had to leave Company A as a punishment for the failure of the 6<sup>th</sup> Branch Company the budgetary implementation for 2005. Also, it was revealed in Mr H's budgetary conference with Q.Lg. Ltd. in 2007 that, the budgetary objective of the whole investment company was not accomplished in 2005 as well, thus Mr H. only got 80% of his planned bonus. These two examples both show that even at the early stage of budgetary reform in Company A, budgetary implementation was connected with performance evaluation and measurements. Whether the performance measurement in Mr L's case was proper or not is another issue, and will be discussed in chapter 5 of this thesis.

Third stage: according to data, with time passes by, Company A has become more experienced in budgetary practices and has implemented its performance evaluation and measurement systems. Firstly, for the budgetary objectives, Company A has learned through time to know how to set them to be difficult but not impossible to accomplish. Using A1 as an example, according to Mr X (who used to be the chief accountant of the 6<sup>th</sup> Branch Company of A1 and assisted Mr L to start budgetary reform there, then was promoted to be in charge of A1's accounting department and budgeting after two years) from A1 Ltd., after two years' practices, normally the budgetary targets would neither be exceeded too much nor be achieved too easily. The company also keeps adjusting budgetary objectives according to real situation. In other words, the accumulating of the experiences enables the company to set proper objectives. 'Normally 80% to 90% of the objectives can be completed in Company A1, but still there are people who have to leave the company due to failure of achieving budgetary objectives. Thus, budgetary objectives now in A1 are possible but not easy to be

accomplished', X said in an interview, in March, 2007. Secondly, for the content of the budgets, it was learned in 2006 that, Company A 'basically does annual budgets which include the analysis of loss budgets as well as unrealized budgets' (from an Interview with Mr H about Budgeting on 26<sup>th</sup> Dec., 2006).

Thirdly, for the performance evaluation process, using Company Ab as an example, it adopts different practices to different branch or subsidiary company, or for different products. Mr H said that, 'for example, the performance evaluation of the department of electronic power suppliers is different from the performance evaluation of the department of completed products. These differences are due to the differences in external environment, operating strategies, the profit situation, and so on. The ways of performance evaluation have to be coherent with specific rules and principles of the specific industry' (from an Interview with Mr H about Budgeting on 26<sup>th</sup> Dec., 2006). In more details, for the performance evaluation of the marketing departments, sales budget is the starting point. Company A pays attention to each customer in every region of the world. Each marketing employee has different customer contacts. Company A relates the evaluation of marketing employees' performances with their correspondent customers' performances. For the manufacturing parts of the company, they allocate relevant human resource expenses, supporting facilities' expenses, and investments according to the producing capacity of different products. For urgent orders, Company A predicts a reasonable scale of it based on historical experiences and then includes it in the whole budgets. For the R & D centre, Company A also budgets a certain amount of money based on historical experiences.

Fourthly, for the performance measurement, Company A gradually sets up its own principals and system of indexes. As for the principles, the benefits of the managerial staff in the subsidiary or branch companies are relevant with the performance of these companies. These benefits include bonus stocks and profits. After A1 Ltd. is listed in the stock market, some of the managers own stock shares based on personal contributions. People who stay in A1 Ltd. enjoy more benefits from these stock shares. Under specific circumstances, to be coherent with the company's strategies, there can be flexible adjustments of the performance measurement in certain part of the company. For example, in order to motivate Q. L. Ltd. to actively participate in the external market in 2007, 3% of the performance beyond objective is added to the basic 8% of the objective as extra award. (High level managerial staffs didn't participate in the basic award, but they participate in the award beyond target.) As for the long term and short term budgetary indexes for the Investment Company Ab, according to Mr H in 2007, the market share, and the profits indexes (profitability, shareholders' return, the quality of manufacturing, and stock management ability) are included for financial indexes. The nonfinancial indexes include customer's satisfaction, on-time delivery rate, and products' rate of consistently being qualified. Company A as a whole, pays high attention to the index of mercantile rate of return. Each department also has an important index for itself. By doing so, they then understand what are the focuses of their works. In the K. H. Subsidiary Ltd., the major accountant Ah Zhen denied that the employee's income was relevant with budgets. 'No', she said, 'the income distribution is based on the profits, instead of the implementation of budgets.' 'However, budgeting is relevant with the sense of achievement (from an Interview with Ah Zhen in the K. H. Ltd., on Jan. 19<sup>th</sup>, 2007).' For K. J. Ltd., Mr H said that the 5% to 10% of profit beyond the budgets belong to individuals. For the employees working in the producing line, according to Mr Chen from K.J. Subsidiary Ltd., their performances are measured by the standard task per day. Extra performance is rewarded by



piece. Work in extra hour is rewarded by piece. Ab also has got KPI system for detailed regulations of performance measurement, but Mr H thinks that it is very ‘academic’ (refers to the next section for more details).

According to case evidences presented above, through time, Company A’s performance evaluation and measurement have changed to be more detailed and more implemented. The combination between budgetary implementation and performance measurement motivates employees in Company A to work harder to achieve budgetary objectives. Experience has also enabled Company A to learn to set difficult but possible budgetary objectives. However, these don’t mean that there are no problems. Relevant issues including budgetary participation, supervising (communication) style, the internal adjustment of the figures, and ‘indexes’ of Company A’s performance measurements will be further discussed in later chapters of this thesis. Concerning how Company A uses information system to budget is going to be discussed in section underneath.

#### **4.3.5 Changes of Information Technology and Other Management Techniques Concerning Budgeting in Company A**

While Company A introduces the budgetary system into the company and gradually implements it, the company also introduces other IT techniques or management systems step by step. The use of these modern systems or techniques means that Company A is gradually improving its overall managerial abilities and efficiency. However, the use of some systems or techniques sometimes only stays at a ‘façade’ level. This current section focuses at illustrating some of Company A’s changes in IT techniques and other management systems.

Later chapters of this thesis will further use these changes to discuss about how on earth company A uses these technology and techniques, what the reasons are and what the consequences are.

In parallel with the introduction of budgetary systems, Company A also introduces I. E. (Industrial Engineering) System, EIP (Enterprise Information Plan) System, ERP (Enterprise Resource Plan) System, MRP2 (Material Resource Plan) System, Standard Cost System, Six Sigma, Material Storage Management, Surveillance System, Customers' Credit Management System, 5S 'ISO 900' System for Quality Control, and Just-On-Time Price Reporting System.

From Jan., 2004, Company A started using I.E. (Industrial Engineering) system. The main costs of this system include the cost of technological input and the cost of facilities. Moreover, this system brings the concept of 'nothing is the best, but there is always something better' to the company. Also from Jan., 2004, Company A started using EIP (Enterprise Information Plan). Company A has put 400,000.0 RMB into it, and uses it as a communication system. Company A bought ERP (Enterprise Resource Plan) at the price of 1,000,000.0 RMB. It was said by Mr H that ERP helps Company A to make production plan. However, according to an interview with Mr X in March, 2007, Company A doesn't directly input original and relevant information to ERP system through computers at each information level for production plan. Instead, many staff use excel and then copy and paste them into ERP system, because they don't know how to use ERP otherwise. Also, Mr X said that A1 uses ERP more as an I.T. system for announcing awards and penalties, informing conferences and holidays, publishing rules and regulations. Although Mr J also said that ERP is only a system, the essence of using it is still people, he didn't indicate clear solutions towards existing problems.

For budgeting, Company A1 uses ERP as a platform of performance measurement for the level of departmental managers. They announce the performance measurement results of each department monthly in the system of ERP. For the general manager level of budgetary reflective information, conferences are held at the year end with the top level managers. The budgetary achievements of departmental staff are related with their salaries in A1 Ltd. According to a form with financial, nonfinancial and human resource indexes, A1 increases or reduces scores for each department as the basis of increasing or reducing salaries. There is annual assessment for the technological staff, and there is evaluation at the end of every month for the manufacturing departments. For example, if the problem of product quality occurs less than 3 times, a certain number of score shall be deducted; if the product returning rate is more than 4%, a certain number of scores shall be deducted. The indexes include sales, profit, cost, safety (accident rate), quality, days of stock in trade, production value per capital (efficiency). Each index is combined with a certain weight. There are awards if the objectives are implemented exceedingly. But only the bosses know how much the awards are.

Company A uses MRP2 (Material Resource Plan) as a system for material resource supply. Company A uses the standard cost system to guide cost management. Company A does monthly plan and monthly analysis based on it. Company A combines this system with 6 Sigma and IE project, to keep the cost at the lowest level and to guarantee the company's comparative advantage of low cost. 6 Sigma requires defect control, variation reduction, and process improvement to reduce the cost and improves the quality.

In Jan., 2007, the researcher visited the Five Metal Self-Producing Material Storage Area. The material area is well organized and clean. Even during lunch time, electronic vehicles

were running along the avenue to transfer materials. The researcher didn't see this during the first round of data collection. Mr H explained that these are the results of the improvement of material storage management, and the electronic vehicles are used to save time and improve efficiency. When the researcher visited K.J. Ltd. in 2006, it was learned that this subsidiary company uses CCTV for surveillance. Company A also uses credit management system to investigate the credit of the cooperating companies to control the risks. A1 Ltd. has a more implemented credit management system, while subsidiary companies newly bought by Company Ab are encouraged to use it. When Mr H was revising Ab's guiding principle in Jan., 2007, I asked him about the company A's regulation and systems. Mr H said that, some of Company A's systems are realized at a very superficial level, the '5S' (ISO 900) system for quality control for example. In some other companies in the same industry, it is implemented much better. In a budgetary conference with subsidiary companies in March, 2007, Mr H suggested K.H. Ltd. to build up a just-on-time price reporting system, since the prices of copper change quickly. About the competition among branch companies or subsidiary companies, Mr X said that normally they don't dare to have vicious competition publicly, because that Company A has an overall financial system for surveillance. If the financial activity is not beneficial to the overall development of the whole company, it would be reported.

When the researcher asked Mr H in 2007, about what are the main advantages of using all these systems and techniques, Mr H said that, 'they cover different departments and keep changing. It is easy to be rigid if the work is only limited in one department without dynamic communication with other departments or without changing according to necessity.' Using the system of KPI as an example, box 4.9 underneath illustrates Mr H's opinion towards it.

***Box 4.9 Mr H's Opinions about KPI, Data Drawn from an Interview in March, 2007:***

The research: What is KPI?

Mr. H: Detailed regulations of performance measurement. There are a lot of people who use it. There are also a lot of people who do training about it and earn quite a lot of money!

The researcher: What is the use of it?

Mr H: It is quite a generally used thing. It's about managing behaviours and performances. For the middle level managers, it can manage their behaviours. For the top level managers, it focuses on the performance.

The researcher: Do you like it?

Mr H: I think it is very conventional, academic. But some people are very keen to it. Different people think differently, you know.

The Researcher: I see.

In brief, within two years between this study's two rounds of data collection, Company A have incorporated a number of systems (managerial or computer technical). Some of them (i.e. ERP and I. E. System) are related with budgetary system (for example, information reporting and feedbacks, performance evaluation and measurement). Development in Company A's general managerial ability has been observed as a result of these changes (for example, changes in material storage management observed by the researcher mentioned above). However, the use of these modern systems in Company A sometimes is quite different from how they are supposed to be used in practice according to their Western inventors. Even managers in Company A admit themselves that although Company A has bought so many systems, the key issue is still lies on 'who' use them and how do they use them, and in fact the systems are always used at a superficial level because of the lack of training of employees. Hence, for one thing, the existence of these often superficially used systems reflects Company A's immature attitude towards modern Western management

systems and information technologies. These systems in part are only ‘decorations’ of management fashions, instead of mechanisms bringing substantial changes. For another, façade sometimes they may be, these new systems do have brought certain changes to Company A. Therefore, if in the future, Company A keeps learning and improving itself to use these systems more effectively for the company’s overall performance, existing problems would not hinder a gradual process of development. If not, these systems would rather be a waste of money and wouldn’t contribute to Company A’s substantial changes in internal management. Later chapters of this thesis are going to relate the use of these systems with other perspectives in Company A for deeper discussion.

#### ***4.4 Company B’s Budgetary Reform in A Changing Context***

##### ***4.4.1 Environmental Changes and Its Influences towards the Budgetary System of Company B***

As it has been reviewed in chapter 2 about contingent studies concerning environmental uncertainty and dependence, unstable environments suggest organic structures which emphasize decentralization to achieve flexibility and adaptability. Environmental pressure is also a major reason for Company B’s budgetary reform and other changes. In the late 1990s, Chinese electronic household appliances industry had experienced a ‘watershed’. This was the major environmental reason for Company B’s budgetary reform. The year of 1995 was the start of the hard time for Chinese companies in electronic household appliances industry in general. And then, the year of 1996 and 1997 were the most difficult years. Competition was intense. Many household appliances companies went out of the game. Company B was

not an exception of the difficulties. Another major company in the same industry even wanted to buy Company B. While air conditioner has always been one of the major products of Company B, the domestic market of air conditioners shrank a lot due to the systematic risks. Also, the prices of the raw materials kept increasing. For example, the price of metal doubled or tripled at that time. In this situation, Company B introduced the budgetary system into the group in 1996. Afterwards, the environmental pressure has always been heavy. Later the exchange rate of RMB increased which influences Companies like Company B whose export takes an essential part of the business. With an annual export of 2,200,000,000.0 RMB, if the exchange rate increases by one per cent, Company B loses millions of RMB. In recent years, the export tax return rate was reduced by 4% twice, which strengthened the environmental pressure.

In brief, the same with Company A, Company B also started its budgetary reform during a vase neck period of its development. Environmental pressure obviously has a causal relationship with Company B's budgetary reform. Although Company B started its budgetary reform nearly 10 years earlier than Company A, the reasons behind their start of budgetary reform are similar. Changes in the industry, threatens from competitors' emergence, difficulties in financing through other channels, and technological changes which are not sufficient to beat competitors, all push Company B to search for solutions from inner management.

As it has been introduced in previous chapter 3 of this thesis, different from Company A's pioneer stage in investment and operation abroad, Company B has subsidiaries or branches in U.S., Germany, Japan, Hong Kong, Korea, Canada, and Russia. Its products have been

distributed to more than 100 countries and regions of the world. During the second round of data collection in Company B, it was known that after China's government has agreed to increase the exchange rate of RMB, Company B has invested and founded factories in Vietnam to manufacture electronic household produces at a cheaper cost. This further proved Company B's operation in foreign countries (both developed countries in the West and countries which have cheaper cost of land and labour). Naturally, when a company operates in a country or region different from its own motherland, this company needs to adapt to foreign legal system, culture, and professional institutions' principles. For example, Nobes and Parker (2002) analyzed 'major international differences in financial reporting' and reasons for these differences. Therefore, if Company B has successfully operated in foreign countries, it means that Company B's operations in foreign market have incorporated systems which satisfy Western external examining institutions and shareholders. Modern management system is one of the major methods for Company B's operations in foreign markets to achieve this incorporation.

In brief, while environmental pressures is the direct cause for Company B to introduce budgetary system, operating in foreign countries (especially developed Western countries with strong regulating accounting profession, and clear requirements for financial reporting and inner management) requires certain parts of Company B to get in touch with advanced Western management accounting systems. This in turn, enables Company B to transfer advanced Western management accounting systems and information techniques which it has learned from abroad, towards Company B's operations in domestic (Chinese) market. Although at present Company A's scale and stage of development is behind Company B, there is a tendency that in a longer run Company A will develop to the same direction because of globalization.



#### ***4.4.2 Company B's Structural Changes and The Need of Better Control and Planning Caused by These Structural Changes***

In spite of the intense external competition, Company B itself also needed the reform at the time to achieve higher level of efficiency and control. In 1997, because of its self-expanding, the management system of Company B reached a 'vase neck'. The original system was the 'big factory' style with a high degree of centralization. The whole company used to produce various products all together, with a beeline functional distribution. Then, within the later months of 1997, Company B practiced the structural reform of business departmental systems. The key issue was to decentralize. Units (departments) were reclassified according to the products. Each product has a producing department. Each producing department is an individual unit. The group distributed the rights of operational management to the producing departments.

On the one hand, because of this structural reform, Company B needed to evaluate the performances of the newly restructured departments. And thus, a new budgetary system was needed to satisfy the needs. On the other hand, with the expansion of the company, more and more managerial layers are added. This creates a longer distance between the original information and the managers (especially the top managers). How to control becomes a problem. This contributes to another reason for the budgetary reform, which is to achieve better control for the decentralized expanding organization.

After the decentralizing structural changes of the company B, problems still exists. For example, the departmental conflicts exist because that the products and markets overlap. The

services, the channels of supplying or sales are quite similar among departments. Thus, company B further restructured the organization by emerging departments to second class groups. This further restructuring doesn't resolve all the problems either. Every second class group company wants to be bigger and everybody develops. The direction of investment and the direction of industrial development among second class group companies overlap. Negotiation beforehand doesn't really help either. So Company B now plans in advance to avoid vicious competition. This makes organizational operation easier. Planning in advance also changes people from doing things passively towards doing things actively.

Till now, there are three things in common between Company A and Company B concerning links between structural changes and budgetary reform. Firstly, before these two companies start budgetary reform, they both had been through an important organizational structural change. Secondly, both of these two companies' structural change and budgetary reform were to achieve better control for expanded organizations through decentralization and budgeting. Thirdly, departmental<sup>12</sup> conflicts have occurred in both companies' structural changes, vicious in-company competition in turn would bring negative influences to departmental budgeting, therefore both companies' later restructuring include channelling vicious in-company competition towards virtuous cooperation and competition, for the overall group company's long-term benefits.

#### ***4.4.3 The Changes of People's Concepts in Company B***

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<sup>12</sup> 'Department' here only refers to a certain part of the company, not the meaning of 'division' as a production or budgeting unit. 'Departmental conflict' here then refers to in-company conflicts.

When the budgetary reform started in Company B in 1996, there were twists and turns for the reform, which was largely due to the employees' resistance to the reform. In order to build up the system, Company B's employees involved had to do extra work which they didn't want to do. This is caused by Company B's employees' lack of understanding towards the necessity and content of modern-term budgeting. Some of these employees even questioned that, 'why (we) have to go back to the "planned economy" again, after being transformed to the market economy' (from an Interview with Mr Ch, the vice chief inspector of the department of financial management, in 2005). During the early months of 1997, general managers reported and analyzed their budgets in the headquarters monthly. However, since budgeting is related with the responsibility system, many general managers used incorrect figures to avoid responsibilities. Thus, there existed a lot of conflicting figures and figures among different departments or branch companies. After half a year, the budgetary system had to halt because of these obstacles.

Fortunately, the highest level management of Company B paid a lot of attention to the budgetary reform. These top managers said that the budgetary reform still 'had to be carried out'. Thus, deserted works concerning budgetary system were picked up again and developments were pushed through based on an enormous amount of time and efforts. At the beginning of the restarting of the budgetary reform, people still budget only in order to deal with the examination by the headquarters. They thought that the budgetary reform was not important. Departmental accountants made up figures just inside the offices, without checking numbers based on the reality. Departments bargained with the group company as well. Gradually, people realized that the budgetary system could be used to manage their inner organization. Budgeting is a tool, a useful tool. Till now, according to Mr Ch in 2007, 'people report from bottom to top, level by level. And finally, Company B has an overall

budgetary management system.’ ‘Only with the existence of the budgetary system, people can begin to talk about data analysis. Previously, shareholders are team leaders. Now they are judges.’

In spite of the top management’s enforcement and relevant people’s hard work and communication, the separation of the budgeting and performance evaluation also motivates the positive changes in people’s concepts. This is going to be further discussed in the next section 4.4.4 about the changes of performance management in Company B.

As Company A’s budgetary reform was ‘not a smooth process’ ‘from zero to perfect’, Company B’s budgetary reform, 10 years earlier though, also had gone through twists and turns, and even paused once. Furthermore, these two companies share similar problems during their early stage of practicing budgetary system. These are all related with employee’s concepts towards modern-term budgeting. First, budgetary reform encountered resistance in both companies due to employees’ lack of understanding towards the meaning and necessity of modern-term budgetary system. While Company A’s divisional managers claimed that they don’t want to be ‘designed by figures’, Company B’s employee complained about ‘going back to planned economy’ by budgeting. Second, departmental conflicts exist in both companies and these conflicts have been deepened by treating budgeting as a tool to gain optimum departmental benefits, instead of better control and long-term benefit for the whole group company. For example, when the 6<sup>th</sup> Branch Company of A1 was preparing for budgets of 2005, one manager intended to manipulate figures for more funding. In 2006 and 2007, A1 Ltd. forced Q. L. Ltd. to buy and install useless machines for A1’s own better budgetary performance. In Company B, departmental or general managers provide

conflicting calibres and figures to the group company to fake better budgetary implementation. Third, as budgeting shall be a bottom-up process by nature, the lack of understanding about this issue in both companies prevent them to do a bottom-up budgeting for better control. For example, in A1's 6<sup>th</sup> branch Company at the end of Year 2004, budgetary conferences between the general manager and divisional managers ended up to be simple reduction of figures, decided by the general manager himself, instead of being based on honest analysis about historical and time-being situation. In Company B, it was found out that some managers just made up figures inside the offices, without checking real numbers based on the reality.

To solve these problems caused by limitation in people's concepts, higher level's perseverance in both companies is a major factor that guarantees the carry-on of their budgetary systems. Both companies also try to channel vicious departmental conflicts towards a virtuous heading in their further restructuring. As Company A puts its strategy as 'profit conscious', Company B clearly realizes that a certain degree of separation between budgetary implementation and performance evaluation is necessary. A large amount of time and effort spent in continuous communication also make managers in both companies gradually realize that budgeting can be a useful tool for inner management. To be noted, the lack of relevant training and education concerning budgeting is a crucial reason for problems in both companies' budgetary concepts. Hence, there is an urgent need to change this situation, which will be further discussed in chapter 7 of this thesis.

#### ***4.4.4 The Changes of Company B's Performance Management***

Before the budgetary reform in Company B in the year of 1996, information was not symmetric. Not only people didn't care about budgeting, but also the figures concerning performance evaluation and rewards (or awards) had been kept the same within 3 years before 1996. After the budgetary reform, Company B does monthly performance evaluation.

As it has been mentioned above, largely due to people's reluctance to change, and the managers' manipulation of figures to avoid relevant responsibilities, the budgetary reform had suspended for a while in Company B in 1997. In order to reduce resistance and gain support, company B kept evaluation standards a bit lower than the budgets. Only if the objective implementation was 3% less than the budgets, the department was to be punished. From the year of 2000 onwards, Company B separated the performance evaluation from budgets to a deeper degree. During the interviews with Mr Ch in 2005 and 2007, he always emphasized on this separation as an important step for successful budgetary system and performance management.

For the details of performance evaluation, Company B used profits and income as evaluation indexes before 2002. These indexes encouraged departments, branches and subsidiaries to fight for resources and scales. As a consequence of vicious inner competition, a lot of bad assets were discovered during the restructuring. From 2002, Company B started using EVA<sup>13</sup> as an economic evaluation index. According to Mr Ch in 2005, the use of EVA could not only reduce those kinds of problems, but also could pay attention to the contribution made by

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<sup>13</sup> EVA™ is a trademark of Stern, Stewart and Co., EVA refers to Economic Value Added. For a discussion of its relationship with capital budgeting, see Malmi and Ikäheimo, 2003 as an example. However, neither EVA nor capital budgeting is of this study's further concern, since they are not directly relevant with this research project's topic and data collected. It only symbolizes Company B's effort of using advanced economic/ financial/ accounting techniques here.

managers – added value. For the general calculations, Company B adopts historical data method. They use ‘text calculating’ with the data of the previous 3 years at different percentages. In addition, according to Mr Z who was in charge of the strategy development centre of Company B in 2007, Company B uses relatively more short-term indexes and relatively fewer longer-term indexes. So the short-term behaviours are quite obvious. Company B doesn’t use balanced score card for evaluation. During the second round of data collection in Company B in 2007, Mr Ch. allowed me to read Company B’s detailed regulation and indexes of performance evaluation and measurement. Since Company B considers these indexes as essential managerial competitive advantage of the company, it was not allowed to be revealed in details in this study, but the existence of these indexes are permitted to be discussed by the current study.

For the setting of the budgetary objectives and the implementation of it, people in Company B were not sure about the numbers at the beginning of the budgetary reform. They could not grasp the situation of the market and the situation of themselves well. Thus, the figures reported by junior levels had to be forced to reduce a lot. Many conflicts rooted from this. Nevertheless, things get better gradually. Until 2004, people in Company B had become more rational towards their work. They learn to make realistic objectives and try to implement it. Budgetary system also makes it impossible for the second level groups (which are also called second level platforms) to cheat or to hide things from the B Group Company, because figures are reported from the bottom line. Until 2007, it was learned that the accomplishments of budgetary objectives can at most exceed 10% to 20%, or be at least 5% to 10% below. Company B doesn’t need to worry too much about the impossibility of implementing the budgetary objectives.

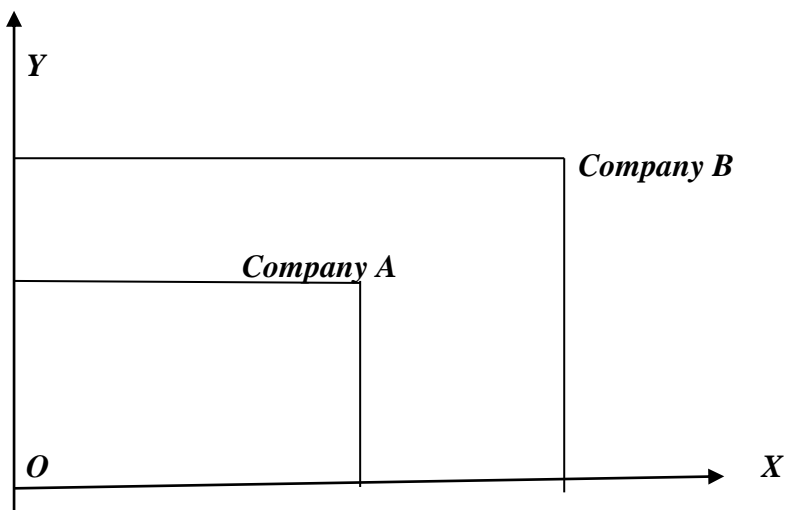
For the performance measurement, Company B is said to try to keep it positive. While the bargains and problems in the budgetary process are majorly due to managers' worries about performance evaluation, according to Mr Ch, Company B systematically separates the performance measurement system from budgeting. When being questioned that completely separating these two is not good either, Mr Ch explained that budgeting is related to the growth of the company. Mr Z from Company B's strategy department also said that 'the annual measurement has nothing to do with the profits of the group'. This will be further discussed in Chapter 6 of the current study.

In brief, both Company A and Company B's changes in performance evaluation and measurement show a gradual process towards the rationalization of setting and implementing proper budgetary objectives, the distribution of these objectives to different levels, the distribution of the responsibility to different levels, the use of more motivation rather than punishment, the strengthening of communication, and the technical implementing of performance measurement indexes. These all have helped to achieve positive performance measurement. While both companies have developed through years, Company B shows a clear concern in separating budgeting from performance evaluation and measurement ever since the researcher's first contact with Company B in 2004, but data collected in Company A doesn't reveal such a realization. Hence despite similar tendencies, Company A and Company B do differ due to Company B's more advanced stage of development in general. If Company A and Company B are seen as representatives of Chinese companies in the industry of electronic household appliances developed at different stages, then this gap reveals an interesting picture pointing a direction of future development (refers to figure 4.1), and the same applies to other perspectives of changes relevant with budgeting, discussed in previous sections of this chapter.



To be noted, while during data collection in both companies in 2007, it was found out that not only Company A and Company B, but also some other companies in the same industry in the same sites are detailing ‘indexes’ of performance evaluation and measurement. And this is why o companies were alert about the confidentiality of these ‘indexes’. The researcher also observed that, the same with management systems and information technologies mentioned above, these ‘indexes’ are both a proof of self-development, and a phenomenon concerning with ‘management fashions’. The latter warns the researcher about the ‘real value’ of these indexes – the motivation of using them, the way how the companies set up these indexes, the degree of ‘fitness’ to companies’ real situation, and the influences these indexes bring.

***Figure 4.2 The Relationship between Companies’ Stage of Development, and Their Concepts and Practices in Different Perspectives Concerning Budgeting, Illustrated in a Two-Dimensional Coordinated System:***



X-axis represents: Time and Stage of Development

Y-axis represents: Company’s Degree of Comprehensiveness in Concepts, Structural Fitness, Ability to Operate in Foreign Countries or Regions (Degree of ‘Internationalization’), Performance Evaluation and Measurement, Products’ Quality and Overall Producing

Efficiency, Coordination of Management Systems (Including Management Accounting Systems) and Information Technology

To be noted: figure 4.2 above only illustrates a general tendency, not an exact figure measured by proportions based on quantitative statistics.

#### ***4.4.5 The Changes of Other Managerial or I.T. Systems and Techniques in Company B***

In parallel with the introduction of budgetary systems, Company B used EVA, ERP, Fund Management System, AIS System (Cancelled Due To Cost), Strategy, and Capital Management System. In spite of using EVA from 2003 and 2004, Company B bought ERP from Hyperion Ltd. (an American company). Till 2007, Company B has used it for more than 10 years. Company B hired a team from Deloitte Consultancy Ltd. to install this system. However, since Company B's employees didn't understand this system, Company B has spent time to train one employee to be in charge of the software education, system maintenance and operation. According to Mr Ch, the major purpose of using ERP in Company B is for information screening. Company B used to mundanely choose useful materials and information by hands at first. Later Company B changed to use another common system. After installing ERP, the information reports finally can come into being automatically and the disturbance by people thus is reduced. Although the period of turning ERP into use was long, and it needs cooperation during the whole procedure, now Company B can integrate the whole group into the practice of it. The information can be deepened and detailed.

From 1996, Company B began to centralize the management of funds and started setting up its fund management system. All the settlements, cash-ins and cash-outs, and loans should only go through the group. From 2005, Company B was developing a new fund system. The new system is more concentrated than the previous system, and only concerns about settlements. In 2005, Mr Ch was negotiating with a big consultancy firm in Shen Zhen city to buy AIS (Accounting Information System). Understanding that Company B needs to do a lot of adjustment after buying AIS, the biggest concern was the price. Later in 2007, it was learned that this buying behaviour was cancelled due to the high cost.

For the strategy management and planning system, Company B combines the strategy with annual plans. The middle range plans are for five years. However, since the industry of electronic household appliances is a fast changing industry, the change of human resource structure is fast as well, Company B adopts rolling three year plans. The strategy is also connected with budgets. The strategy tends to be conservative at the short term, and to be optimistic at the long term. The group sets budgetary objectives after communication with strategic departments, but strategies are irrelevant with budgetary performances. For the capital management system, Company B's management of capital investment is very strict, and the cash flow is very healthy. Company B has very few goods in stock. And Company B has very few bad accounts longer than 3 months. They deal with unhealthy capital immediately.

As it has been mentioned in Chapter 2 of this thesis, modern information technology both permits and requires changes in communication and interaction patterns within and between organizations. The same with Company A, Company B also has installed other management

or information systems, or used Western management techniques, together with budgetary system. Both companies don't develop their inner management by relying on one single system or technique. Instead, they both try to achieve comprehensive development by combining different means. Comparing with Company A, Company B has used its ERP system better, which in turn represents its higher level of overall management and employee's quality than Company A. This serves as another example proving figure 4.2 above. If self-development is seen as a gradual 'process', then Company A and Company B shows different stages of this process, and hence in a way suggests certain tendency of development.

#### ***4.5 Conclusion***

Different from chapter 2's content concerning china, which emphasizes at relevant theoretical works, and also different from chapter 3's content concerning the research context, which emphasizes at 'the matters of facts' directly shown by figures, this chapter firstly implements previous chapters' content concerning research context by introducing China, Shun De, and even the electronic household appliances industry from a different angle. This 'different angle' looks at the specific circumstances of this research project from historical, social-economic, cultural and even religious perspectives. This part of this current chapter largely explains why management accounting changes including budgetary changes have to happen at this point of time – China's economic reform enables Chinese manufacturing companies to boom and these companies need better control systems or techniques to coordinate the expanding organizations, China's accounting reforms and regulations as well as China's participation in global business activities require Chinese companies to normalize themselves by management accounting systems or techniques such as budgeting, intense competition

brings a urgent demand for better cost control or efficiency management systems and techniques such as budgeting. It also explains why changes concerning management accounting systems or techniques including budgetary system can take place in electronic household appliances industry in Shun De – an opportunist combination of a prepared industry and a business-oriented culture with a strong entrepreneurship spirit. Briefly speaking, this first part of current chapter 4 pictures the ‘context’ at the first level.

The second part of this chapter then pictures the ‘context’ at the second level, which is embedded in, and interacts with, the first level of ‘context’. Empirical experiences in both case study companies show findings in common. Management accounting changes do synchronously take place, while studied Chinese companies are implementing budgetary control systems: 1) environmental factors have causal relationships with case study companies’ budgetary reform. 2) Organization’s structural change is often in parallel with budgetary reform, but there is a gap between the two in studied companies. 3) Continuous changes of employees’ attitudes and understanding happen. 4) Changes in performance evaluation and measurement exist. 5) Changes in information technology and other management techniques concerning budgeting take place. As a whole, budgetary practice in the two case-study companies lies in a context of continuously changing environment, structure, attitudes and understanding, performance management, and other systems and techniques. These perspectives interlink with each other, and have an impact on the overall development of companies. Themes depriving from data findings overlap with findings of management accounting research using a contingency theory approach.

However, the contingency theory approach in Western management accounting literature concerning budgetary systems alone is not sufficient in explaining case study Chinese companies' budgetary practices. For example, what kinds of changes in performance evaluation and measurement exist, what are the differences between two case study companies concerning this issue, what are the differences between case study companies' practices and Western theories, and why. Western studies using this approach also are not sufficient to reveal interlinking relationships between different management accounting changes, or relationships between these changes and budgetary changes. For example, how do case study Chinese companies' structural change affects their budgetary changes? Content of this chapter's earlier part has already indicated potential management accounting difficulties concerning budgeting, caused by the differences between Chinese culture and Western ideologies, and possible problems aroused by Shun De's self-contradictory local culture. In order to answer these questions, one needs to look deeper into data itself, and to refer to obvious or subtle contextual elements. Hence, case evidences which cannot be explained by China's context in general or by different perspectives of management accounting changes take place in the organizational context will be presented in the next chapter, and to be explored by those more subtle contextual elements.

## **Chapter 5 The Structural Context's Subtle Influences on Case Study Companies' Budgetary Changes**

‘According to Noelle-Neuman, individuals, fearing social isolation, refrain from expressing opinions out of step with the general climate of opinion. A spiral of silence occurs because remaining silent in this way reinforces the impression of unanimity in public opinion which, in turn, increases pressure on those holding minority views.’

(Noelle-Neuman, 1984; quoted in Lee, 1995)

### ***5.1 Introduction***

As Bhasker (quoted in Bryman, 2001: p. 13) said, ‘we will only be able to understand – and so change – the social world if we identify the structures at work that generate those events and discourses’. Also as Bryman (2001) discussed, ‘while there are differences of opinion about how qualitative evaluation should be carried out, the different views typically coalesce around a recognition of the importance of an in-depth understanding of the context in which an intervention occurs and the diverse viewpoints of the stakeholders’ (Greene, 1994, 2000, quoted in Bryman 2001: p. 40). Institutional theorists (i.e. Knetter, 1989) prove that ‘firms in different types of economies react differently to similar challenges’. Hence, finding out those ‘social, economic, and political factors [constituting] an institutional structure of a particular environment’ -- the structural context, ‘which provides firms with advantages for engaging in

specific types of activities there', is crucial for understanding organizational activities, including concepts and practices of budgeting.

Although also realizing the influences of the context, the previous chapter focuses on the dimension of 'time'. In other words, it focuses on the analysis of other managerial accounting and management systems introduced during the span of observation. From this perspective, though bearing many differences, Company A and Company B shares common patterns in their changes over time. Similarities in Company A and Company B's changes imply certain tendencies concerning management accounting change. This chapter focuses on the dimension of 'space' – *context*. By presenting relevant cultural factors and macro (systematic) structures discovered in Company A and Company B, this chapter offers contextual insights which have relationships with changes introduced in the previous chapter, and gives explanations towards how these companies use budgetary information which will be discussed in chapter 6. Since Company A and Company B operate in the same industry and are situated at the same sites, they share the same infrastructures of social economics. For this reason, this chapter is written according to themes discovered in data, and examples in both companies are used to discuss about relevant themes.

Key event's coding method, and reverse thinking in logic (refers to chapter 3) are frequently used for data findings discussed in this chapter.



## **5.2 Cultural Reasons for ‘Pseudo’ Bottom-Up Budgetary Participation**

When the researcher was doing a presentation at a conference (BAA Annual Conference’s Doctoral Colloquium, Portsmouth, 2006), whose main audience were Western academics in the area of management accounting, the researcher was asked by a scholar ‘why Chinese companies who have been influenced by central-planned economy and culture for decades turn to use modern budgetary system which is so different from the logic of up-down ordering?’ Interestingly, as a contrast (and as has already been mentioned in chapter 4) some employees in Company B resisted budgetary reform and asked that, ‘why (we) have to go back to the “planned economy” again, after being transformed to the market economy (from an Interview with Mr Ch, the vice chief inspector of the department of financial management, in 2005)?’ Despite the fact that lack of understanding towards the meaning of budgetary system caused Company B’s employees’ misunderstanding here, these two remarks reflect confusions in both sides (Western academics and Chinese practitioners) due to cultural differences.

As the researcher has focused on observing A1’s 6<sup>th</sup> Branch Companies’ budgetary concepts and practices through different time periods of this longitudinal study, it is used as a representative case here. Through analyzing data collected from different perspectives, it can be revealed that though budgetary practices have been implemented and developed within recent years, this branch company’s budgetary behaviour has always been a ‘pseudo’ bottom-up by nature.

According to box 4.2 in the previous chapter of this thesis, although budgeting was said to be a ‘bottom-up’ decentralizing process, it was a top-down process during the first round of data collection in A1’s 6<sup>th</sup> Branch Company. Instead of collecting ‘real information’ from the divisions, the general manager at that time, Mr L, cut total figures according to his personal will during the budgetary conferences. Naturally, practical budgetary objectives could not be attained while they were not based on ‘real’ information collected from divisions. And this irrational budgetary behaviour directly led to the former general manager’s resignation due to a striking failure of reaching A1’s 6<sup>th</sup> Branch Company’s budgetary objectives for 2005. Chapter 4 of this thesis has already mentioned that when Mr L’s joined Company A’s major competitor, after A1’s 6<sup>th</sup> Branch Company’s failure in implementing budgetary objectives for 2005, the competitor company’s stock prices dropped. This was caused by the public’s lack of trust in the manager’s professional morality. Unfortunately, although Company A punished A1’s 6<sup>th</sup> Branch’s failure in accomplishing budgetary systems by firing Mr L, this event didn’t make Company A reflect further about the reasons behind A1’s 6<sup>th</sup> Branch Company’s setting of unreasonable budgetary objectives at that time. Experiences during the following years have enabled Company A to learn to set more reasonable budgets (refers to chapter 4), and ceremonial procedures indicate a shift of ‘atmosphere’ in Company A’s acceptance of doing budgeting (refers to chapter 4), but examples underneath are going to reveal whether budgetary participation of A1’s 6<sup>th</sup> Branch Company has become real bottom-up or not after two years.

According to second round data collection, 2 years after the start of budgetary reform in Company A, the general manager of A1’s 6<sup>th</sup> Branch Company has been changed to Mr H2. During an interview with Mr H2, he said that his and the 6<sup>th</sup> Branch Company only function was to ‘achieve the goal A1 Ltd. asks to achieve’, ‘budgetary objectives are bananas,

we (A1's 6<sup>th</sup> Branch Company) are monkeys, the Group Company hangs bananas on the ceiling, we monkeys try to reach these bananas by whatever means we need to use. If the Group Company needs us to stretch our hands, we will stretch our hands. If the Group Company needs us to stand on a wooden case, we will stand on a wooden case to reach bananas. We don't make budgets, we follow budgets, whatever the Group Company sets for us, no matter how high the ceiling is, our loyalty is always with the Group Company, our heart is always with the highest management of the Group Company, and we will reach the bananas for the Group Company' (refers to box 5.1 for more details).

***Box 5.1 Mr H2 (the New General Manager of A1's 6<sup>th</sup> Branch Company)'s Concepts towards A1's 6<sup>th</sup> Branch Company's Role in Budgetary Participation, Data Drawn from an Interview with Mr H2, in Jan., 2007:***

The Researcher: Could you please talk about budgeting in the 6<sup>th</sup> Branch Company?

Mr. H2: The CEO office (of A1 Ltd.) send us quota. Then we do it. We do it under the leadership of the CEO office of A1, under the leadership of A Group, under the leadership of Mr H. Mr H, don't you think so?

(They laughed together.)

The Researcher: Could you please explain it to me in more details?

Mr H2: (Loudly) you don't listen! You don't follow me. I told you. We just do it!

The Researcher: I mean could you please introduce more information about how your company does it? I would love to know.

Mr H2: We take the quota we received as the starting point, as the basis of budgeting. Then we distribute the tasks to junior units. We organize people to evaluate the advantages and disadvantages of the producing line of the electronic household appliances in the market, and then try to implement our own producing procedure. By doing so, we would try to produce the best quality of products at the least costs.

The Researcher: How does the quota be decided? Do you participate in setting up the quota, or you just accept it from the 6<sup>th</sup> Branch Company of A1?

Mr H2 started shouting at the researcher: You are so stupid! Didn't you listen to me? PhD students mean nothing. You are so stupid! Why do you keep asking, I've told you all of them? You are stupid, and you don't know how to follow my thoughts! I ask my employees to follow my thought. I don't have a college degree. There are a lot of employees who have. I manage them. I told you, but you didn't listen.

The Researcher: So you accept the quota from A1 Ltd.? How do they set up the quota? I don't know the process, and I need your help! (In fact the researcher's purpose is to confirm the overall situation of budgetary setting in A1 here.)

Mr H (trying to help): It's the marketing department of A1 Ltd., who does the research of the markets. The research includes the controllable and uncontrollable elements of the external environment in the coming year. This is the starting point of the sales budget. Then the general manager of the branch company is in charge of the teams, resources and the capacity.

Mr H2 (loudly): Yes, Mr H. is correct! Whatever the group requires, whatever the group evaluates, and the branch company will reach it!

Budgetees' boss bears the most crucial relationships to its outputs. The boss in his turn depends on his superior, so this type of influence often works plant-wide, however modified by the managerial skills of individual middle-level managers'. This quotation concluded in Western management accounting literature about budgeting in 1960s, can still be applied in Chinese companies in 2000s. With Mr H2's opinions about budgeting like this, it is not a surprise that very limited participation is given to his junior managers in decision making and task setting concerning budgets. Departmental managers under the 'rule' of Mr H2, naturally function like 'monkeys', driven merely to reach pre-set 'bananas' – departmental budgetary objectives, set by 'the boss' – the group company. If it can be said that Mr H2's opinions largely shapes A1's 6<sup>th</sup> Branch Company's junior managers' budgetary concepts and behaviours, data collected in 2006 and 2007 also proved that Mr H2 opinions reflected above was largely influenced by his senior managers' opinions.

During interviews in 2007, Mr J (the head of the financial department of Aa including A1, in 2006 and 2007) solemnly regarded the branch companies of A1 as manufacturing units. Concerning budgetary process in A1, he said that 'about the working out of budgets, the head of the branch companies distribute the quota to the departmental heads, then to the sections' chiefs. There are accountants in every branch company. Every month, the budgetary information is reported to the head of each branch company. The detailed regulations can guarantee that the big quota could be reached'. Hence, it can be observed that this type of practice is 'plant-wide'. In the 6<sup>th</sup> Branch Company of A1, no fundamental change about the nature of budgetary process has been achieved. It had been a top-down process, and it still is – managers take the quota they receive, and then distribute quota to their junior managers. In other words, budgeting doesn't fundamentally change this plant's concepts and behaviours. Employees are still practicing the old way as they know it from the time of centrally-planned

and Chinese historical federal system – listening to their superiors. Information is not refined due to actual information provided from bottom-up. Behaviours are not motivated due to the degree of budgetary participation or autonomy. The only difference after a budgetary system is set up in the 6<sup>th</sup> Branch Company of A is that the management have one more device to ‘beat’ employees ‘up’, to push them to labour harder. In this case, one cannot say that the 6<sup>th</sup> Branch Company of A’s management control has been upgraded through budgetary system. It remains the same as before – to gain advantage through cheap and hard-working labour and cheap manufacturing facilities, and not through better or more advanced modern management control through budgeting. This sad phenomenon can be explained by cultural reasons.

Chinese culture of emphasizing hierarchy and obedience to seniority influences concepts and behaviour of budgeting. Being used to the planned economy reinforces this cultural influence. First, as it is discussed in paragraphs above, this cultural influence leads to a ‘plant-wide’ type of budgeting – managers receive quota from their senior managers, while these managers in turn distribute quota to their junior managers. Hence, budgetary process is a top-down phenomenon. Secondly, this cultural influence makes people at different managerial levels have a ‘taken-for-granted’ concept that senior people have superior knowledge and understanding while the juniors have inferior knowledge and understanding. On the one hand, the senior managers think that the different opinions or disagreement from the junior managers are mostly naturally due to the junior’s junior level of knowledge and ability of understanding things. Because that the inefficiencies of the juniors is seen as natural, further efforts and research about the reasons and contents of these ‘inefficiencies’ were eluded. On the other hand, the value of the junior managers’ ideas sometimes eludes the senior managers’ thinking because of this cultural norm. Worse than this ignorance of juniors’ opinions, it also implies that the importance of future training towards juniors is subconsciously undervalued

and hence it may stay at a very superficial level even when there is training. In other words, due to these cultural reasons, mistakes from the past about budgeting are not deeply examined, and a future of profound changes to budgeting is not guaranteed.

For examples, Mr L, the former general manager of the 6<sup>th</sup> Branch Company thought that the divisional managers' complains during budgetary conferences were only due to their intention to achieve better funding or results of performance evaluation. Mr L and his chief accountant at that time, Mr X contributed their disagreements with divisional managers to divisional managers' inability to understand the necessity of budgeting, and thus divisional managers' suggestions were not worth considering. While Mr L was partly right, there were true insights from his junior managers that should not have been ignored. Also it should be Mr L's responsibility to help the junior managers to improve their understanding. Interestingly, being used to obeying the senior staff, the divisional managers weren't happy about being authorized to do their own departmental budgets and thus participate in the budgetary procedure. They requested the general manager to give them a quota to make life easier (refers to chapter 4 of this thesis). Had they been more active in participating in the budgetary process and showed more supports, Mr L might not have been so frustrated and turned the budgetary process into cutting numbers by himself. While Mr Li failed to reach the budgetary objective of 2005, his senior managers didn't consider the pioneering stage of the budgetary practice and simply contributed the failure to Mr L's inability of understanding and doing it better. Had they not only given guidance and brief training to Mr L, but also conducted further investigation of Mr L's communication process with the divisional managers, the failure of the 6<sup>th</sup> Branch Company in 2005 might have been avoided and the budgetary process of the whole company might have been consolidated. The researcher

noticed that cultural factors were shaping all parties' concepts. Together with lack of training and knowledge about Western budgetary system, budgetary practice here stayed at a superficial level.

Two years later, Mr J and Mr H2 shared the recognition that the 6<sup>th</sup> Branch Company's is only a manufacturing device of A1, and that it obeys budgetary orders coming from A1. Things in the 6<sup>th</sup> Bran Company of A1 were getting worse. Worse than Mr L, Mr J and Mr H2 didn't even try to let junior managers to contribute real budgetary making at the first place. With this tendency of development, the researcher cannot foresee real upgrading in the 6<sup>th</sup> Branch Company in A1 in the near future. And all these are shaped by the hierarchical top-down cultural norm.

In brief, with the 6<sup>th</sup> Branch Company of A1 as a typical example, the emphasis on hierarchy in Chinese culture, strengthened by a planned economy, has prevented case-study companies from achieving a real bottom-up budgetary process and has limited the scope for improvement in understanding of budgeting for managers at different levels. Thus, while improving employees' 'knowhow', and adjusting supervising and communication style are necessary measures to improve companies' budgetary concepts and behaviours, measures concerning specific cultural factors shall be considered by senior managers in Chinese companies when these managers are trying to achieve real 'bottom-up' budgetary participation, beyond the superficial level of bureaucratic formality. Employees at different levels in Company A and Company B shall be made by their senior managers to fully realize that, taking control of inner management through budgeting does not mean personal offences to senior management, but is only in accordance with the Group Company's overall benefits



and long-term performance. Also, each person shall be respected and his/her possession of relevant budgetary information shall be valued, whatever ranks him/she is in the organization. Only by realizing these two points, real bottom-up budgetary process can be possible to achieve in Company A and Company B, as well as other Chinese companies in the industry.

### ***5.3 Environmental Uncertainty, and a Vacuum of Belief in Transforming Society, Contribute to Irrational Decision Making***

To develop theory using the grounded theory method, ‘we need a research question or questions that will give us the flexibility and freedom to explore a phenomenon in depth (Strauss and Corbin, 1990: p. 37).’ ...

‘Theoretical sensitivity refers to a personal quality of the researcher. It indicates an awareness of the subtleties of meaning of data. One can come to the research situation with varying degrees of sensitivity depending upon previous reading and experience with or relevant to an area. It can also be developed further during the research process (Strauss and Corbin, 1990: p. 41-42).’

‘You don’t do fieldwork, fieldwork does you (Simpson, 2006).’

During the second round data collection, an event attracted the researcher's interests. Group Company A bought W.L. Washing Machine Company in Zhong Shan city to expand Company A's investment and business. This buying behaviour was solemnly decided by the board directors of Company A without a thorough analysis of the market, the possible profit level in the washing machine industry, and the minimum amount of capital input required for a new 'player' to earn money. The board directors didn't consult key financial staff, including Mr H, for their opinions. As a result, Company A dragged itself into a saturate industry with 'high level equilibrium trap'<sup>1</sup>. It took a lot of money for Company A to enter the industry. Later, the more money Company A put into W.L. Ltd., the more money is wasted. The operation situation of W.L. Washing Machine Ltd. can be referred to box 5.2 underneath.

*Box 5.2 The Operation Reality of W. L. Washing Machine Ltd, Invested by Company A, Data Drawn from a Project Note about a Discussion between Mr H and Mr J, 2007:*

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<sup>1</sup> According to Arrighi, et al. (2003), Mark (1996) used 'high-level equilibrium trap' theory to describe China's development from the 14<sup>th</sup> century to the start of 19<sup>th</sup> century. Based on this perspective, Mark (1996, quoted in Arrighi, et al. 2003: p.115) claimed that, 'although China's agriculture adopted different technologies and organizing methods to improve land productivity, by the end of this era, China had used up potential of further development because China didn't quickly introduce western advanced production technology'. ... Also, 'in a path-dependent situation, revolutionary changes can only happen in the condition of active learning'.

In other words, 'high-level equilibrium trap' is not brought by stagnation. Instead, it's brought by development exhausting resources without revolutionary technological changes. Hence, 'high-level equilibrium trap' theory can be used to explain Company A's investment in W. L. Washing Machine Ltd. discussed in this chapter.

Mr H: W.L.'s profit in the year of 2006 was more than 10 million RMB; hopefully in the year of 2007 the profit could be 30 to 40 million RMB.

Mr J: The figures you are talking about are all gross profits. The more Company A invests in W.L., the faster the money is wasted. I really can't see the possibility of W.L. to earn money for Company A. W.L. is different from A1. Whatever W.L. produces, washing machines, microwave ovens, or even small electronic household appliances, it can't earn money. The products are not complementary, and the money input is not enough.

Mr H: Cash flow is a big problem.

...

Mr H: K Ltd. (another group company in the same industry located in the same city with Company A) bought H Ltd., and then A followed to buy W.L. Ltd. But in fact K hasn't put a big sum of money into H. H is actually only an empty shelf.

Mr J: 'People' is another issue. Now we are cooperating with K, but how can our people handle their people? Neither B nor G wants to take over the deal of microwave ovens. W.L. went to accept the deal, and started producing W.L.'s microwaves. It's doomed to be a loss. If the business is profitable, why didn't B and G go to accept it? They both are more developed companies than us. Moreover, we don't have enough money to put into the project and we can never build up the scale effect.

Mr H: The financial ability of W.L. is too crap. I need the cash flow statements and the cash budget. They sent me an income statement. How can they be the same? Foreign companies strongly emphasize cash flow. How can a company do well without a group of good employees who are familiar with finance and accounting? Now the monthly salary of financial staff has been increased to 3,500.0 RMB...

Shareholders of Company A realized W. L.'s bad performance in the Year of 2006. It was observed in 'Group Company A's 2007 HR Appointment Ceremony, and Signing Ceremony for the Budgetary Responsibilities', on Jan. 16<sup>th</sup>, 2007 that, managers from W. L. Ltd. were criticized for its bad performance in 2006. However, instead of correcting this fundamental investment mistake and stopping further waste of resources, the board of directors of Company A decided to keep investing in W. L. Ltd. in 2007. Even though high level financial staff including Mr H and Mr J could clearly see the mistakes of these decisions, they kept

silence in the conference because they later explained to the researcher that the board directors ‘won’t listen’. Then one of the decisions of Company A’s 2007 budgetary conference was to change the CEO of W. L. Washing Machine Ltd. to one of shareholders’ high school classmate, who has neither college education nor business experiences. Why can obvious major decision mistakes not be stopped in this profit-oriented company? Why is there a ‘hidden rule’ at the high level conferences that people treat these major decision mistakes as ‘elephants in the room’? Do these phenomenon have subtle links with case study Companies’ budgetary reform, especially failure in a transform towards a real bottom-up budgetary control? Answers may be obvious in Western professional’s eyes. Yet we need other examples to convince.

If financial or accounting professionals and their expertise, as well as market information, are not the basis for such a big investment decision in Company A mentioned in the example above, then what are the foundation for Company A’s decision making? While wandering about the answer of this question in mind, the researcher recalled a series of interesting observations during the fieldwork:

- On the first day when the researcher visited Company A’s headquarter, it was seen that there is a big wooden altar of the ‘God of Fortune’ (pictures were taken but not included in this thesis, due to confidentiality reasons) in the main hall. The secretary told the researcher that, ‘there always is a member from the board chairman’s family to be in charge of this altar box ---- changing the flowers, fruits, candles and joss stick. Although the members of the chairman's family not necessarily believe this God of Fortune, it is a tradition to keep the altar well for the company's sake during all these years.’

- A1 doesn't have a 4<sup>th</sup> branch company although A1 has a 5<sup>th</sup> branch company and a 6<sup>th</sup> branch company. This is because number '4' is pronounced the same with 'death' in Cantonese.
- Mr H not only played 'divinations' (refers to box 5.3) with his secretary and the researcher for personal matters, but also used it to predict Q. Lg. Subsidiary Ltd.'s performance for the Year of 2007. According to a divination produced from a bunch of chopsticks, Mr H said that it is going to be better.

As the first example shown in this current section reflects a serious decisional mistake caused by Company A's irrational economic behaviour ignoring marketing information and professionals' opinions, it is also unfair to say that Company A's decision making totally neglects rational decisions based on financial and accounting information. The board of directors uses graduates from business schools or experienced professionals (although the knowledge construction of these professionals differ, they still are more prepared in using real and relevant business information to make reasonable decisions in general), while they also publicly worship the 'God of Fortune' and blindly trust personal contacts (this later issue will be further discussed in section 5.4 underneath). High level managerial staff in Company A uses accounting and financial information (although the situation in which they use this information will be discussed in chapter 6, it is a fact that they do use them), modern techniques and systems (i.e., budgeting), while they also use divinations, Tai Chi Chart (refers to box 5.3), and so on to contribute to their decision makings in the uncertain environment.

China's fast changes in social-economy (refers to chapter 4) affects China's existing belief systems. It causes a collective confusion at a spiritual level. While communist movements are

substituted by money movements, people don't know they should choose God or Buddha or Chinese corrupting system to find moral guidance. Despite the moral vacuum mentioned in chapter 4 of this thesis, China's specific situation relevant with this project's topic about budgetary change in changing organizations -- a knowledge gap behind Western advanced management and technological techniques, and personal or organizational sense of 'insecure' caused by uncertain environment, all lead many Chinese managers to face external environment with whatever knowledge or belief resource they can gain strength from. Surprisingly, some managers in case studied companies know clearly about these self-contradictory 'mixture' of beliefs backing up board of directors and hired managers' decision making, as well as the differences between these 'mixed belief systems' and Western 'conventional wisdom'<sup>2</sup>. Speaking of traditional Chinese food and medicine, Mr H noted during an interview about Chinese culture on the 28<sup>th</sup> Dec., 2006, that 'both have no standard about unified quantity for every ingredient. How to cook all depends on the specific situation, the specific person, and even personal mood and hobby. We take a few of these, and a few of those, and then make up something as a whole. Personal knowledge, resources and human relationships are the "ingredients" of Chinese CEOs. Western companies are more systematic and procedural.' Ah Zh, the chief accountant in Company A's K. H. Ltd. also said during an interview on the 19<sup>th</sup> Jan., 2007 that, 'the difference between the east and the west lies on whether we use "people to manage people" or to use "the system to manage people". What I think is that we should combine the two.' Although the irrationality is recognized, no serious effort to improve the situation has been observed.

In other words, while certain Chinese managers in case study companies do recognize cultural differences between what underpins Chinese companies' practice, practices including

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<sup>2</sup> Here Western 'conventional wisdom' doesn't refer to management accounting theories in Western textbooks. Instead, it refers to Western underpinning social-economic concepts/ ideology.

budgeting and decision making and what underpins the original Western managerial techniques and systems including budgeting, managers tend to accept a Chinese companies' unique way of using Western experiences, experiences like budgeting and 'modern' decision making, as it is. They don't think deeper. They don't differentiate between which Chinese practices and Western theories are good and which are bad, which can be avoided and which cannot be avoided, and which should therefore be accepted as they are and which should be changed for better. The researcher argues that it is this frivolity of Chinese practitioners' thinking, the blind acceptance of the differences between Chinese practices and Western theories as they are, not the differences between culture themselves, that have limited what case studied Chinese companies' could have learnt from their Western counterparts in terms of budgetary system and decision making. The researcher then suggested here that a possible way for Chinese companies' future improvement doesn't lie in an overnight and total transformation in Chinese culture, but in gradually achieving this differentiation, and to find solutions based on this newly gained differentiated awareness. The researcher also suggests Western researchers to be aware about Chinese unique context of decision making -- rational economic decision, superstition, quintessence of Chinese culture, or a mixture of all.

#### ***5.4 In-Company Politics or Social Conflicts between 'Indigenes' and 'Transplants'? Interpreting Power Structure and Interests' Conflicts in a Broader Societal Context***

In the example discussed in previous section 5.3, instead of trusting professionals immigrated from other provinces, the board directors trusted a high school classmate without business knowledge to be in charge of W. L. Ltd. and kept increasing the investment. While the previous section 5.3 narrowly focused on analyzing particular cultural factors concerning

irrational decision contributed by environmental uncertainty and a vacuum of belief systems confronting Chinese managers in general, this current section 5.4 emphasizes at analyzing a broader societal background, shared by Company A, Company B, and the other companies in the same industry in the same site, behind in-company power structure.

As it has been mentioned earlier in this thesis, when the researcher was interviewing Mr H2, the later general manager of A1's 6<sup>th</sup> Branch Company, Mr H2 accepted to be interviewed but showed a hostile attitude. After the interview, Mr H explained that it was because Mr H2 belongs to an opposite power group<sup>3</sup> within Company A. After observing people's interactions and conversations through time, though not clear-cut inclusive, a picture of Company A's two major power groups has become more and more clear. That is, a distinction between 'indigenes' (people who were born and bred in Shun De City, mostly family members and personal friends of chairmen of the board, who own the land, capital, and in fact the group company) against 'transplants' (people who moved from other parts of China, mostly professional managers, engineers who earn a living by expertise and technologies they possess). Box 5.3 underneath pictures the existence of these two power groups and their conflicts.

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<sup>3</sup> Beyond common concern towards 'power' as a political term or an issue of conflicting interests, management accounting theories have discussed further issues concerning the relationships between 'power' and the implementation of accounting systems. For example, in Markus and Pfeffer's (1983) work concerning 'power and the design and implementation of accounting and control systems', they proposed 'three consonance hypotheses' to 'explain resistance and system difficulty: accounting and control systems will be implemented easily to the extent that they are (a) consistent with other sources of power in their implications for the distribution of power; (b) consistent with the dominant organizational culture and paradigm in their implications for values and beliefs; and (c) consistent with shared judgements about technical certainty and goal congruence in their assumptions about the degree of certainty about the organization's goals and technology. These sources of resistance are fundamentally structural, and process-based strategies (such as user involvement in design) are largely ineffective in overcoming these problems. This result suggests that power structures and organizational paradigms must be considered in both research and practice dealing with accounting and control system (Markus and Pfeffer, 1983).'



*Box 5.3 An Example of 'Indigenes' vs. 'Transplants', Data Drawn from Mr H and Mr Zh.'s Conversation about Company A's management, Jan. 2007:*

Mr Zh. owns the office next to Mr H's. He is in charge of the part of investment in the stock market. So he looks at the stock prices every day. Also, he gives suggestions to the stock investment of several key people (including him). Dialogues underneath recorded the conversations between these two high level managers in Company A.

Mr Zhang: Good morning.

Mr H: Hi, good morning.

Mr Zhang: Are you busy this morning?

Mr H: Not really, I'm quite free actually and playing games of divination with X. Sit down, please. And have some tea.

Mr Zhang: Thank you! (He sat down.) How do you play games of divination with X?

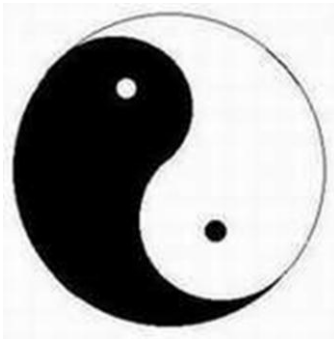
Mr H: With chopsticks. You don't need complicated facilities for this.

Mr Zhang: Ha ha, with chopsticks? Do you believe that?

Mr H: You don't understand. Chinese things are very interesting and mysterious. They can give you special insights to things.

Mr Zh.: Really?

Mr H: Yes. For example, you know Taiji, right? And everybody knows the chart of Yin and Yang, right?



This picture is from <http://www.chinesezhouyi.com/taiji.html>.

If you look at the HR strategy used by the shareholders (board directors) of Company A, then you can see that this chart is very useful.

Mr Zh.: He he, sounds interesting.

Mr H: Look at the Taiji chart first. What do you see from it? As a whole, it's a circle. The circle represents the universe. It also represents everything. It can be the macro universe and it also can be the micro matter. So everything could be included in this circle.

Then inside the circle, you can see two main parts of black and white. Every coin has two sides. In everything, you can see different kinds of strengths, negative or positive perspectives, different power groups, attractions to different directions, and so on. In short, the two main parts represent different perspectives of the universe, the matter, the person, or the thing.

Is the world as simple as the two main parts of black and white? No!

So you see, inside the white part, there is a black area. Although this area is relevantly small, it exists. A 'good' person may have dark sides. A bad thing may cause good changes. Nothing is absolute or certain. There is always a possibility for change. If the black part keeps growing and the white part keeps reducing, then gradually the black part will become the dominating element and the nature of the matter is changed. Now, the white part with a small black area will be turned into the black part with a small white area. For the same reason, this situation can be changed vice versa.

Furthermore, the circle is not simply cut into two parts by a straight line. It is divided by a curve with the shape of "S". Why? This represents the relationships and movements. White and black embrace each other and are embraced by each other. They are related and exchangeable.

Me: Ah, amazing!

Mr H: Of course. This is "science" and knowledge inside this chart. The most amazing thing about the chart is that it implies unlimited and endless change, movement, and possibilities.

The researcher: How?

Mr H: Inside the black, there is white, inside the white, there is black, inside the black again, there is white. Although the chart only has drawn two main parts, the process could be endless. In this way, two simple colours represent a very colourful world. One simple chart uses very simple symbols to imply very complicated reality.

The researcher: Just like maths.

Mr H: Yes, just like maths.

*(Page 2 of Box 5.3)*

Mr H: The same. There is Yin within Yang, and there is Yang within Yin. I have two examples here. First, considering A1's staff doing finance as a whole circle, there are four key professionals including H, Y, J, Zh who represent the part of 'Yang'. These four are the doers. Then there are three people including the father of the boss, Y2, and Ch2 who represent the part of 'Yin'. These people help to control, to surveillance, and to balance the relationships.

Mr Zh.: En, that's true.

Mr H: Second, considering Zhongshan K. Q. Ltd. as another whole circle, O, B, and Qg represent the dark part. Professionals including H and Zh represent the white part. Inside the white part, there is Mr G who can be represented as the small black area inside the white part, since he is sent by the bosses for control. Don't you see it?

Our bosses are very smart, very smart indeed. They might not necessarily know the chart of Taiji, but if you observe what they do, then you will discover that they use the theory very well.

Mr Zh: (Laughed) Indeed!

Mr H: H3 said yesterday that CEO is in parallel with the Investment Centre. They are at the same level. Ha! Such a follower and lackey.

*(Page 3 of Box 5.3)*

From box 5.3, it can be seen that the shareholders of Company A has a very strict and complex system which uses kinship members to surveillance and control 'transplant' managers at different managerial levels. To testify Mr H's observations, the researcher witnessed another group chatting on a journey to Company A's customer company, TNC, during the second round of this study's data collection. The driver is a relative of shareholders of Company A, and his task is for surveillance and control. The shareholders' system of tight control and surveillance is carried out by their family members and personal friends. Though in some cases this system has balanced relationships within Company A to a certain degree, this system of surveillance has also caused anxiety in transplant manager due to a sense of not being trusted they clearly feel. Later in March, 2007, Mr H told the researcher on the way home that, many high level managers in Company A who are

‘transplants’ have left Company A within recent years. ‘Mr Lv2, the former chief engineer, left the company as well. We were good friends. There are very few positions in a company that is concerned with key resources and information and hard to be substituted – key financial or accounting managers are among these positions. In China, one company has to consider a high cost, if it wants to change a key financial or accounting manager. About people in other positions, if you are a transplant, then it is very easy for you to leave.’

In brief, the ‘indigenes’ vs. ‘transplants’ power differentiation within Company A is not only concern general social issues (i.e. the degree of ‘cultural openness or compatibility of a region’), but also directly influence budgetary process (i.e. Mr H2’s unwillingness of cooperation with Mr H), in-company communication, decision making (i.e. the board of directors in Company A trusted high school classmate for wrongly invested W. L. Ltd. without consulting major accounting or finance managers’ opinions), and managers’ anxiety and sense of ‘belonging’. In paragraphs underneath, the situation of this issue in Company B and the general situation of this issue in the other companies in the same industry in the same site will be discussed.

As specified in the literature review chapter of this thesis, although there are limited researches about Chinese companies’ budgetary systems specifically, many Western or Chinese scholars have researched Chinese companies’ management. These works lend useful suggestions towards Chinese context and organizational behaviours for companies studied in this research project. Concerning the issue of ‘indigenes’ vs. ‘transplants’, Wu et al. (2004) discovered that in ‘Chinese private businesses, especially Chinese family-owned private businesses’, this phenomenon ‘commonly exists’. According to Wu et al.(2004), ‘among

family members who participate in company's management, management exceeding one's own authority always happens because the boundaries of authority are not clear even among themselves'. For the reasons behind the existence of 'indigenes' vs. 'transplants' in companies' management, Wu et al. (2004) listed three reasons:

- A. 'The blur or absence of corporate culture and the loss of motivational and constraining corporate values make the kinship affection and loyalty become corporate culture. This in turn embeds the creation and growth of management misplacement' (Wu et al., 2004) of family members;
- B. 'The blur and absence of organizational systems, especially misunderstanding in modern organizational management systems, has provided opportunities and space for family members' exceeding authority in company's management' (Wu et al., 2004);
- C. 'Bosses of the companies support and over-indulgent family members, distrust the competency and morality of extraneous professional managers, and always bear suspicious attitude to examine these managers' behaviours. These all provide powerful support for family members' exceeding authority in company's management.' (Wu et al., 2004)

Wu et al. (2004) also pointed out that, kinships' interference (which is termed as 'management misplacement by Wu et al., 2004) 'messes up companies' orders of operation and management, destroy employees' confidence and trust towards companies, and hence severely restricts companies' development'. Wu's study shows that the conflicts between kinship and hired professionals are not a unique issue only influencing Company A.

According to observations and interviews in Company B, the issue of ‘indigenes’ vs. ‘transplants’ (or in other words, the issue of family kinships’ management vs. professionals’ management) is less obvious. Among companies in the same industry and in the same sites, Company B has a good reputation of employing ‘high quality’ employees. For example, as it has been discussed in chapter 4 of this thesis, Company B experienced a hard time in the late 1990s. Then ‘between 1997 and 1998, Company B did a large scale ‘re-engineering’ in its business unit producing air conditioners. During this ‘re-engineering’, Company B fired a large number of existing sales employees, and substituted fire-offs with more than 300, under-thirty-years old, undergraduates or postgraduates from famous Chinese universities (Fan and Chen, 2002)’. Also, Company B advertises itself as a company who employs ‘local talents in 1970s, Cantonese talents in 1980s, Chinese talents in 1990s, and international talents from 2000’<sup>4</sup>.

Company B’s different strategy and attitude towards employees from outside Shun De city contribute as an important reason for its better situation concerning ‘indigenes’ and ‘transplants’ conflicts than Company A. This shows that, due to environmental pressure and requirements for companies’ development, modern term management substituting family management is a necessary tendency of development for Chinese family-owned private companies. Referring to figure 4.2 in the previous chapter of this thesis, if Company B and Company A represents different development stages for Chinese electronic household appliances companies, then future tendency in Company A must be the diminishing of family members’ interference of organizational management. However, the fading and eventual evacuation of family influences is a slow and gradual process. For both Company A and

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<sup>4</sup> As a referencing example, President of (SDB) Shenzhen Development Bank at the moment is Frank Newman, who used to work for American government.

Company B, it is impossible to immediately cast off all the influences caused by ‘indigenes’ vs. ‘transplants’ (or ‘kinship management’ vs. ‘professional management’) conflict. In the near future at least, this phenomenon will still exist to a certain degree, thus it will still shape organizational activities including budgetary practices.

Furthermore, the researcher also finds that, up-down budgeting practiced in case study companies are caused by a deeply rooted national culture which emphasizes on hierarchy. This emphasis on hierarchy in turn is caused by China’s long federal history and recent China’s central planning economy. Budgetary problem caused by these fundamental cultural reasons are the most difficult budgetary problems to change. The degree of conflicts in budgetary communication and participation caused by a more regional reason of ‘indigenes’ vs. ‘transplants’ conflict, can differ among individual companies. And hence, this type of budgetary difficulty is in a way easier to overcome. Case evidences of this project suggest that it is possible for Chinese companies to cultivate a corporation culture, to purposefully diminish ‘indigenes’ vs. ‘transplants’ conflict, to avoid unnecessary internal consumption of energy, and to improve the effectiveness and efficiency of managerial systems such as budgeting.

For most recent updates concerning case study companies’ culture relevant with ‘indigenes’ vs. ‘transplants’ issue, company B’s core founder and chairman of the board of director resigned from core company B1 on 26<sup>th</sup> August 2010 (Min, 2010). He formally handed the wand of A1 to professional CEO Mr Fang. It is the first time that Company B handed total power of top-level management to professional manager. This is also the first time for this kind of phenomenon to happen in Chinese private-owned-companies turned listed companies.

Although it doesn't mean that the 'indigenes' loses control in the overall group company B, this update indicates that Company B maintains its corporation culture in diminishing discrimination towards 'transplants'. The researcher believes that this tendency will benefit Company B's inner control including the operation of budgetary system.

### ***5.5 A Chicken-and-egg Problem – The Relationships between Chinese Companies' Manipulative Activities and China's Incomplete Macro Systems***

As mentioned in chapter 4, Company A originally planned to go to H.K. stock market in the 2005. During the first round of data collection, the researcher learned that this decision had been made and that action was expected. Later in that year the scandal of Chuang Wei Ltd. happened. Chuang Wei Ltd. could not meet the legal requirements of H. K. stock market, and its illegal financial operation was exposed (for details, refer to chapter 4 of this thesis). Company A immediately cancelled its original plan and hired consultancy firms to examine the group company. Since the consultancy firm could not clarify the complicated financial behaviours of company A, it suggested company A to adopt a series of changes to satisfy the fundamental requirements of 'five independence' for listed companies in China. Thus, company A had to further restructure the group company. It claims that the group company has been separated to Aa which is in charge of the manufacturing operation, and the investment company Ab which is in charge of the investment behaviours. After the paper works, the payment to the consulting company, and bureaucratic changes, Company A finally changed to decide to put A1 alone to continental China's stock market.



However, although Company A made changes to justify itself towards the requirements for the listed companies, the researcher becomes suspicious about why Group Company A as a whole couldn't satisfy the requirements for the listed companies in H. K., and how much substantial improvements have been done. For the HR, Mr. Zh said that the restructure made the group company have 'two sets of frameworks and office titles, with the same set of people'. For the information transparency, employees from both of the HSBC insurance company and the CITIC investment company who had implemented projects with Company A (refers to chapter 3, for data collection plans about interviews with them) informed the researcher during the interview in March, 2007 that, '(Company A and Company B) conceal a lot of facts and information. The ways in which they are doing things are very un-standardized. It is very hard to communicate with them and cooperate with them. They hide and they refuse to tell us things. We can't work with them. We don't like it.' Field observations of this project further explain researcher's suspicions and outsiders' comments.

Other phenomena concerning nonstandard financial/ accounting behaviours were also observed during this study's fieldwork. During a conference in Mr H's office on 6<sup>th</sup> Jan., 2007, Mr H answered the phone and said that, 'K. J. Subsidiary Ltd. actually is only an empty shelf. It is a pocket for A1 to hold money'. This short phone conversation can largely explain why Company A withdrew its decision of being listed in H. K. stock market as a group company, and then put the core company A1 alone in continental China's stock market. The restructuring of the group company was in fact a manipulation, in order to 'technically' satisfy the requirements of the stock market, without substantial improvements of the group company's financial behaviours and transparency. This is not a singular phenomenon. According to the box 5.2 above, Company K in the same industry and the same site with case

study companies bought Company H and claimed this to be an investing behaviour. In fact, Company H is also a shelf company functioning as a ‘pocket’ of money transfer inside the whole company.<sup>5</sup>

Furthermore, Mr H’s phone call about the ways of calculating profits and expenses was observed in Jan., 2007. Mr H said that, ‘about the profit, of course you should use the “rules of three”. About the expenses, of course we can’t use it. Otherwise, we will die!!! The achievement from cost control will totally be offset.’ On 17<sup>th</sup>, Jan., 2007, Mr H admitted that Company A created false accounts for external auditing (refers to box 5.4 underneath).

*Box 5.4 Company A’s Un-Standard Practice in Financial Report, Data Drawn from a Field Observation on 17<sup>th</sup> Jan., 2007:*

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<sup>5</sup> As a referencing example for this phenomenon, Mr Huang Guangyu, the CEO of the largest retail company in Chinese electronic household appliances industry was put into jail at the end of 2008. He’s accused of using shell companies for illegal financial behaviours. Afterwards, H.’s case has brought out a number of serious bribing cases concerning high rank Chinese governmental officers.

In the morning, Mr H called an accounting firm and asked it to emerge financial reports for Group Company A. He said that, this emerged report surely will be issued as accounting report instead of tax report. This report will be used for external auditing and payable tax after A1 Ltd. goes to the stock market.

After the call, the researcher looked at Mr H, so he explained that, ‘the false accounts are for external auditing. The profit figure on it is 50% of the real figure. The real figure also includes income tax, transferable tax (takes up around 33% of the whole) and added tax (takes up to 17% of the whole). The real accounts are for the internal auditing by ourselves.’ Mr H also said that, ‘it is very normal for the companies to adjust accounts. However, this situation of two sets of accounts is not about adjustment. They are totally different. We make up the false one. Chinese companies’ financial reports for the purpose of tax are mostly false.

Foreign companies also adjust their accounts. But it is unusual for them to make up a totally false account, since foreign companies are more procedural. For example, Wal-Mart has branches all over the world, and people get bored by checking the financial reports of Wal-Mart. Wal-Mart doesn't want to sacrifice the overall benefits because of little short-term benefits.’

...

These case evidences show that it is not simply new budgetary system and other Western management accounting systems or techniques (refers to chapter 4 of this thesis) alone, achieved continuous profit increase and costs’ reduction for case Company A and some other companies in Chinese electronic household appliances industry in Shun De. It also takes

financial or accounting manipulation to achieve that. The researcher suggests that one shall not look at figures about budgetary implementation alone, to understand the contribution of budgetary reform to case study companies' performance. These case evidences also show that, as a tool to 'normalize' case study companies' business behaviours and self-images towards domestic and international regulators and customers, Western modern management accounting systems or techniques such as budgetary system have not fundamentally 'normalized' Chinese companies' practices.

Referring back to text box 5.4, if Mr H understands that Wal-Mart doesn't want to sacrifice overall benefits for partial short-term benefits through manipulating accounts, why it has become such a common phenomenon that Chinese companies frequently practice illegal accounting and financial behaviours, knowing that there is a high degree of possibility of going to jail like Mr Huang Guangyu did? The next section will illustrate a broader picture of the macro systematic frameworks.

In Jan., 2007, one of the earliest directors of Shun De Auditing Bureau visited Mr H's office. He (represented by 'Mr X' in this study) had left the bureau and now owns an accounting firm. During the interviews with him and the field observations (refers to the box 5.5 underneath), Mr X discussed the macro environment of China, which is closely related to the phenomena occurred in the individual companies mentioned above.

*Box 5.5, Mr X's visit to Mr H and Their Discussion about the Macro Systems of China, Drawn from Filed work Data recorded in Jan., the Year of 2007:*

H (explained to the researcher): A1 used to use exchanging internal auditing. But now these all have been handled by external auditing. Internal auditing can never find out real problems. Auditors receive money, make the financial statements, and that is it.

X: The quality of external auditors is also very problematic.

H: How is your accounting firm?

X: Well, a lot of young people have left. (Turing his head to me) do you know that, before the year of 1992, accountants used to be "voted" to be chartered accountants most of the time. The exam for chartered accountants was held for the first time in 1991. Then the exam was stopped in 1992. In 1993, it started again. However, the accountants who are "voted" to be chartered accountants are still more than the accountants who become chartered accountants by passing the exams. Some of the chartered accountants are transformed from chartered tax collectors. There have been different reforms of accounting standards in China as well. In Nov. of 1992, there was one. It was carried on in 1993. The reform in the year of 2000 was broader and deeper. It made Chinese accounting standards to be basically coherent with international accounting standards. These reforms are for the financial systems, listing companies, and SOEs. And SMEs still obey the original accounting standards. The companies have to face the tax offices, the finance department, and China Securities Regulatory Commission (CSRC). Tax accounting is different from financial accounting. Many of the companies prepare two or even three sets of accounts. They use one set to cheat the tax offices, and they use another set to cheat the shareholders from Taiwan. Companies ask accounting firms to deal with the accounts at the year ends, while the companies deal with current accounts by themselves.

(Page 1 of Box 5.5)

Mr H, what are you busy in doing recently?

Mr H: Company A's assets need to be evaluated. The public value, I mean. After the annual report, the company's value will be added. Some of the expenses will be capitalized.

After Mr H and X solved out their businesses, they took researcher to the restaurant to have lunch. During the lunch time, X kept explaining to the researcher (or to Mr H) about the situation of China's accounting and tax systems.

The Researcher: Why all these things happen in China?

X: It is because of the taxing system. The taxing system in China causes tax evasion. The government randomly distribute quota for tax payment. Taxpayers don't have guarantees for their rights. People think that a man is competent if he can succeed in tax evasion. The principle of morality in China is in a reverse way. The problems not only lie in tax evasion. People who take up powerful positions in China's National Investment Company take bribes from the owners of private enterprises. By giving bribes, the owners of private enterprises then don't need to pay the principle of the loans. They only need to pay the interests. Some of these private enterprises bankrupt, and then they don't need to return the principle for ever...

*(Page 2 of Box 5.5)*

During the second round of data collection, Mr H received a phone call from a tax officer on behalf of the tax bureau. The tax officer informed Mr H that, the taxation office wanted to collect income tax for individual employees in the A Group. The tax would be deducted from individuals' incomes at a certain percentage of the sales of the company. Mr H argued that, 'how can the individual income tax be collected based on the sale of the company? As we both know that the income tax for individuals should be collected on the basis of income tax.'

The tax officer ignored Mr H's question, and insisted on collecting individual income tax based on the sales of the company. Mr H became very angry for the whole day after receiving this call. He told the researcher that the legal basis of this type of behaviour could not be found in any tax law. Mr H phoned a junior manager about this issue, and their exchange can be read in box 5.6.

*Box 5.6, Mr H's Phone Call about Resisting Individual Income Tax Being Collected on the Basis of Company Sales, Data Drawn from a Field Observation Recorded on 12<sup>th</sup> Jan., 2007:*

Mr H: You write a documental report against collecting personal income tax at 0.004 of the companies' sales.

...

Mr H: What? You don't dare to do so? How silly you are! The business representatives of K.H. Subsidiary Ltd. can earn several hundred thousand RMB per capital per year. Paying a bit tax is fine for them. You workers earn 800.0 RMB to 1,000.0 RMB per capital per month, how can you pay such an amount of income tax? I'm trying to help you. Paying tax in this way can make you guys bankrupt. Taxing on the basis of sales is suitable for the company's incomes by buying old factories, or the company's earnings through equipment. It is not suitable for labours. How can you try to be reasonable and obedient to these people? Officers in the tax bureau pay the tax of 5 RMB each per year! So write the report, ok?

Later, Mr H told the researcher that this issue ended with one subsidiary company of A1 paying the individual income tax based on sales, while another subsidiary company of A1 did not. He said, 'China's GDP increases by 10% annually, while China's tax income increases by more than 30% annually because they collect tax forcefully. They (the tax bureau) are not able to show us any official document. The only thing they would say is that if we don't pay the tax in the way they required, they will come to check our account and fine us. There is no Chinese company has no problem if its accounts are checked. Thus we paid it. We had to sacrifice the income tax (actually in spite of income tax, there are lots of other kinds of tax). Even some of our companies, which are losing money, have to pay the income tax.'

Thus, the 'black box' operation of the companies' financial and accounting activities is due to a wicked and vicious cycle of the broader social economical context. If the systematic roots of this vicious cycle cannot be gotten rid of, it is hard to stop the companies from 'black box' behaviours. These systematic roots lie behind the two kinds of failures in budgetary changes in case study companies which the researcher discovered, already mentioned in 5.5.2. In other words, there are direct or indirect relationships between the companies' budgetary behaviours and their other financial and accounting activities. Therefore, the level of development of other financial and accounting activities, and the level of development of the macro systems, places a limit on the level of budgetary reform in the long run. The solution of these problems lies in their roots. The roots and solutions are further discussed below.

While economic structures underline and are affected by political structures, to a certain degree a society's economic system share similarities with its political system. In other words, economic and political systems are likely to develop at the same rate. This current study's focus doesn't lie on discussions towards politics; instead only relevant examples are



discussed here, for a better understanding of organizational or individual behaviours. During an interview with Mr H, in 2007, the researcher learned that a certain governmental officer in Shun De contacted company A to fake GDP, in order to benefit this officers' promotion. If Company A refused to do so, this officer said he (or she) would send people to check Company A's account this year. If Company A cooperates, then this officer guaranteed that he (or she) would let Company A easily 'pass' on external auditing for tax purposes. Mr H said, 'no Chinese company can fight against this kind of "auditing", every Chinese company has problems if you really want to check its accounts. We have no other choices but to cooperate with this officer. They even calculate products in storage which haven't turned into real sales into GDP.'

As it has been discussed in previous parts of current section 5.5, multiple accounts commonly exist in Chinese companies (including Company A and Company B) for the purpose of tax evasion. Tax bureau has used wrong methods to deal with manipulative companies. For companies who originally don't manipulate accounts, they are 'forced' to manipulate due to the tax bureau's wrong methods of collecting taxes. These formulate a vicious and systematic cycle. The fundamental reasons for this vicious cycle include lack of operational transparency and an insufficiency of practices in accordance to laws and regulations. Both Chinese companies and government should examine themselves and improve legal management. For the companies, they should insist on keeping honest accounts and pay their taxes honestly. As long as they are able to do so, governments will have no chance at threatening companies. For the tax bureaus, they should collect tax according to the laws. As Mr X said, the problem of China's vicious cycle is not because there are no laws or rules, but rather that there are no good system to guarantee that practice is carried out according to laws and rules.

Although solutions towards both Chinese companies which manipulate accounts and dark holes in Chinese political systems (i.e. officers' promotional systems and government's tax collection methods) can be easy to suggest, they are difficult to implement. The researcher still cannot foresee from which link first China shall break this notorious cycle of tax – accounts. What the researcher does know is that Chinese companies' inability to show financial information's credibility to the outsiders has negative effects on Chinese companies' efforts towards 'normalization'. With case study Chinese companies' existing failure in achieving upgrading and normalization through budgetary changes from the perspective of management accounting, this failure of achieving upgrading and 'normalization', from the perspective of financial accounting, contributes to a disappointing picture of Chinese companies' accounting practices, regardless of how many reforms in accounting standards China has achieved (refers to chapter 4 of this thesis). Moreover, Chinese companies' complicated financial accounting activities complicate their management accounting activities in a bad way. For example, the researcher suspects that with all kinds of manipulating practices at force, how much achievements case study companies claim to be gained by budgetary reform and other Western management accounting systems and techniques really count? If these achievements are hard to judge, how reliable the achievements case study companies claim themselves to have been achieved by changes in performance evaluation measures count? If these issues are hard to be clarified, how applicable can Western theory or theories of change in management accounting be in the context of budgeting in Chinese electronic household appliances industry? In spite of different grasps of 'know-how' and different culture, a gap obviously lies due to politics and other systematic social economical infrastructures.

According to Chinese government's recent measures observed by the researcher during the second round of data collection, it keeps reducing its interference with companies' operational activities – 'small government, big service' is the slogan. In theory, existing problems can be seen as belong to China's certain stages in the transforming process of development. More specifically, concerning governmental officers' manipulative behaviours for promotion, Chinese government is trying to prevent these behaviours by changing quantitative indexes towards a more comprehensive set of indexes – 'green GDP' and 'public's happiness indexes', for governmental officers' performance evaluation. It waits to be seen whether these governmental policies can be adequately realized. What is certain here is that as long as there are no substantial changes in China's systematic structures, un-standard organizational behaviours will influence all aspects of the companies, including budgetary practices which do promote companies' process of normalization.

## **5.6 Conclusion**

Management accounting researchers (i.e. Hopwood, 1999) have done studies on 'management accounting in its cultural context'. As Geertz (1979, quoted in Williams, 2000) sees 'culture as an "ensemble of texts" which we "strain to read over the shoulders of those to whom they properly belong', Williams (2000) himself sees examples of using culture to interpret as 'inferring from specific instances to the characteristics of a wider social milieu'. The previous chapter of this current thesis introduces a backdrop of China, Shun De and the industry's culture in general, and illustrates different management accounting changes relevant with budgeting within a 'time' dimension. Findings derived from data collected in this study analysed in this current chapter could neither be foreseen or explained by Western theories or theories of change in management accounting alone, nor be explained by general

knowledge of China's recent changes in social economy, culture, and religion. Western study towards senior-junior budgetary relationship and plant's overall budgetary culture can explain the 6<sup>th</sup> Branch Company of A1's senior managers' budgetary concepts, and these concepts' influences on budgetary participation. Chinese study towards 'indigenes' vs. 'transplants' in general can explain the existence of this issue in case study companies. However, it still takes a closer look at this project's case evidences. A proper understanding about case study Chinese companies' budgetary practices needs to combine diverse, subtle, yet related contextual phenomenon. In this way, this thesis contributes to filling in the knowledge gap between the West and China, which will be further discussed in later chapters of this current study.

In details, this current chapter analyzes the systematic factors contributed to 'pseudo' budgetary participation, irrational decision-making, 'management misplacement' (conflicts between business owners' family and professional managers and engineers), and manipulative organizational or governmental behaviours. While the reasons or motivations behind success of budgetary changes and other management accounting changes are easier to be seen (refers to chapter 4 of this thesis), this current chapter reveals that a hierarchical culture due to Chinese federal history and central planning economy, causes failure in case study companies' real bottom-up budgeting and bad decision making, which in turn affect budgetary achievements. The researcher further argues that it is not just Chinese culture's fault to fail in real bottom-up budgeting. The real reason lies in the superficial understanding displayed by Chinese budgetary practitioners of the differences between, and relative worth of, Western theory and Chinese practices.

This chapter also reveals that the conflicts between ‘transplants’ vs. ‘indigenes’ existing in local culture, cause failure in rational decision making, power struggle during budgetary process, and difficulties in budgetary communication in case study companies. However, this level of failure in budgeting can be diminished by a corporation culture which cultivates a harmonious relationship between the two.

This chapter reveals that case study companies’ financial manipulation both confuses the real achievements gained by budgetary reform and the use of other Western management accounting systems or techniques, and counteracts the ‘normalizing’ effects which case study companies hope to achieve through a series of managerial changes including budgetary changes.

Chapter 4 and 5 of this current study both have focused on the transition process in China and case study companies. The next chapter will examine the reasons behind successful or failed budgetary changes in case study companies, from institutions’ transitional process as a whole. As Barley and Tolbert (1997) said, ‘institutional theory highlights cultural influences on decision making and formal structures. It holds that organizations, and the individuals who populate them, are suspended in a web of values, norms, rules, beliefs, and taken-for-granted assumptions that are at least partially of their own making<sup>6</sup>. These cultural elements define the way the world is and should be. They provide blueprints for organizing by specifying the forms and procedures an organization of a particular type should adopt if it is to be seen as a member-in-good-standing of its class (Meyer and Rowan, 1977, quoted in Barley and Tolbert, 1997). Institutions, therefore, represent constraints on the options that individuals and collectives are likely to exercise, albeit constraints those are open to modification over time.’

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<sup>6</sup> Ideology in the Marxist sense, ‘they don’t know it, but they are doing it’. Refers to final chapter for further discussion about this.

Based on chapter 4 and chapter 5's two-dimensional analyses about the context for case studied companies' budgetary practices, how these two companies use budgetary information will be analyzed in chapter 6 and then be interpreted within such an institutional context.

## Chapter 6 The Use of Budgetary Information

‘In the initial stages of their life cycle, organizational fields display considerable diversity in approach and form. Once a field becomes well established, however, there is an inexorable push towards homogenization (DiMaggio and Powell, 1983).’ According to these researchers, ‘by organizational field, we mean those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products. The virtue of this unit of analysis is that it directs our attention not simply to competing firms, as does the population approach of Hannan and Freeman (1977), or to networks of organizations that actually interact, as does the inter-organizational network approach of Laumann et al. (1978), but to the totality of relevant actors. In doing this, the field idea comprehends the importance of both connectedness (see Laumann et al., 1978) and structural equivalence (White et al., 1976).’

### **6.1 Introduction**

According to the longitudinal and contextual analysis of the previous two chapters, changes concerning budgetary systems of this research project’s case-study companies are not limited to budgetary changes in technical perspectives. Although both Company A and Company B have shown a gradual development in implementing budgetary techniques, behavioural perspectives also contribute to the use and influences of budgetary system in these two companies. This is in accordance with Western budgetary literature about ‘beyond budgetary techniques’. After framing a two-dimensional (time and space) context of budgetary changes in the previous two chapters, this chapter focuses on Company A and Company B’s budgetary issues. Analysis in parallel with existing budgetary theories shows the similarities

and differences between these two companies' budgetary practices and Western theories. This chapter also identifies reasons for changing Company A and Company B's budgetary concepts and behaviours.

## **6.2 Literature about Budgetary Information**

According to Nagarethnam Sithambaram (2002), aspects of management control systems concerning budgeting that have been examined include: 'budget use (Bruns and Waterhouse, 1975); budget evaluation style (Govindarajan, 1988); budget pressure (Merchant, 1985), budget tightness (Simons, 1990), performance appraisal system (Govindarajan and Gupta, 1985); and scope (extent to which external, non-financial and future-oriented information is used), timeliness and aggregation attributes (Chenhall and Morris, 1986; Gul, 1991; Chong and Chong, 1997)'.

About the criteria evaluating the influences of budgetary systems, recent management accounting theories in common still value but go beyond 'profit mechanism' (refers to chapter 2 of this thesis about Neo-Classical management accounting theories and later management accounting development). As Scapens (1994) said, although 'profits do provide the basis for predictable managerial behaviour' and 'modern businesses are profit-seeking organizations', 'profit-seeking and maximizing do not amount to the same thing, except in a very simplistic view of the world'. This means that the rejection towards the term of 'profit maximization' as the 'absolute truth' doesn't necessarily deny profit seeking, cost consciousness, or behavioural rationality. In fact, 'many other organizations, including those in the public sector, are increasingly expected to be cost-effective' (see Humphrey, Miller and Scapens, 1993, quoted in Scapens, 1994), and 'the appearance of rationality is



characteristic of the professionalization of most modern organizations' (Meyer and Rowen, 1977, quoted in Scapens, 1994).

Management accounting theories using a contingency approach to value the outcomes of management accounting systems in terms of 'efficiency' and 'effectiveness'. These theories recognize contingencies in budgetary process. Understanding gained by this approach is more comprehensive than neo-classical approach's simplified focus on the outcomes of a budgetary system in terms of profit. According to Emmanuel et al. (1993), "effectiveness" is concerned with the attainment of objectives; an action is effective to the extent that it achieves what it was intended to achieve'. "Efficiency" is concerned with achieving a given result with a minimum use of resources'. This thesis uses an inclusive term 'influences' to discuss the outcomes of case study companies' budgetary changes. Using the term 'influences' not only recognizes the importance of profit (rationality), efficiency, and effectiveness (the latter two terms also include contingent behavioural aspects), but also avoid unnecessary conflicts among these three important criteria.

According to management accounting literature concerning budgeting, the issue of the effectiveness of the budgetary process - particularly that involving accounting performance measures, communication in the budget process (often called budgetary participation), and environmental conditions - has been of continuing interest to researchers (Hassel, 1992). However, there are no single criteria for organizational effectiveness that all can agree on (Steers, 1977). 'Effectiveness of budgetary control is dependent on 1) superior evaluation style (often called budget emphasis or reliance on accounting performance measures), and 2) subordinate budgetary participation when establishing budget targets for performance evaluation' (see chapter 2 of this thesis for details). Furthermore, it is also been suggested

that previous studies have focused on ‘the two-way interactive effects of: 1) superior reliance on accounting performance measures and specific environmental characteristics (Hirst, 1981, 1983; Govindarajan, 1984; Brownell, 1985, 1987; Imoisili, 1989); 2) subordinate budgetary communication and environmental characteristics (Brownell, 1985; Govindarajan, 1986; Mia, 1989); and 3) subordinate budgetary participation and reliance on accounting performance measurements (Brownell, 1982; Hirst, 1987; Dunk, 1989).’ These studies of the accounting performance measures, budgetary participation, and environmental conditions suggest in which ways this thesis can evaluate the effectiveness of budgetary process.

Understanding what is really going on in an organization is more complicated than looking at the ostensible phenomenon of introducing ‘advanced’ management accounting techniques and systems (including the systems and techniques relevant with the budgetary control). Budgetary studies adopting a critical theory approach especially emphasizes the power of institutional rationality and its influences on use of accounting information. For example, Miller and O’Leary (1994a) studied the rising popularity of budgetary practices in the U.S. during the turn of the century. Using a Foucaultian perspective, these researchers understand budgeting as ‘the ensemble of rationalities and technologies’ by which ‘authorities attempt to act on the conduct of others, to shape their beliefs and behaviour in directions deemed desirable’. These researchers also relate the emergence of budgetary techniques by the 1930s in both U.K. and U.S. to a strategy in order to ‘normalize and govern populations of individuals’ (Miller and O’Leary, 1994a). Alternative perspectives such as the perspective adopted by Miller and O’Leary (1994a) help to understand the use of budgetary information from different angles.

### **6.3 The Users of Budgetary Information in This Research Project**

When discussing about the use of budgetary information in case study Chinese companies, the users of budgetary information should naturally be concerned. Relevant questions are: Who are the users? How do these users affect the use of budgetary information? How do these users affect the results of budgeting? Mainly based on Nvivo coding towards collected data's 'attributes' (see chapter 3 of this thesis for further explanation), this current section looks at the users of case study companies' budgetary information from multiple perspectives: from the perspective of institution – companies' ownership, from the perspective of individual – employees' personal background, and from the perspective of an average user's original objective for budgetary information – i.e. budgetary control.

#### **6.3.1 Ownership of Case-study Companies and Its Influences on the Use of Budgetary Information**

An important phenomenon in recent years concerning Chinese companies' ownership style is SOEs 'in' and POEs 'out'. A Chinese magazine 'Nan Feng Chuang' summarized the economic situation of China during the year of 2006 by a series of articles (the same period of time as when the researcher was doing the second round of data collection). An article among this series called 'SOEs in and Private Owned Enterprises out in 2006, and the Effect of Squeezing' said that, in 2005, the profits reserved by the SOEs which is directly or indirectly controlled by the central government reaches 75,000,000,000.0 US dollars (p. 67). On the contrary, for the private owned enterprises, although doing OEM and ODM for foreign companies have brought China 76% of the trade's favourable balance, what China really has gained is only cheap manufacturing fees, with huge environmental waste (p. 72).

When the researcher asked about the implications of this phenomenon, Mr H said that ‘in competitive industries, kicking medium to small size companies out while seizing the large ones are normal. Household electronic appliances industry is a completely competitive industry’. While most of the information collected during the interviews in Company A reflected that the private ownership has given Company A lots of liveliness, this cold wind blowing from the SOEs still gives a chill to the POEs in the same industry. POEs need to adopt measures to face the challenge.

Chapter 4 of this thesis discussed about environmental difficulties facing Chinese POEs. Chapter 5 of this thesis discusses about illegal behaviours of some Chinese companies affected by systematic reasons. All together, the situation of Chinese POEs can be summarized as:

- a) Compared to their state owned counterparts, Chinese privately-owned companies face a difficult situation in financing. While Chinese banks are more policy-willing to lend loans to SOEs (even though SOEs may have a higher risk of failure in principal returns), Chinese POEs in electronic household appliances industries who earn low level profits through large scale manufacturing have continuous difficulties in maintaining business growth with sufficient input. While financing is restricted, Chinese POEs have to keep themselves in the market through fast reaction towards costumers’ needs, improvement in technology and designing, and inner management. This then provides a large market for Western management accounting systems or techniques. However, since Western management accounting systems or techniques are not designed to ‘fit’ Chinese companies, Chinese practitioners have encountered a

painful learning process. They need guidance in using modern management devices, including budgeting.

- b) In learning Western management accounting techniques and systems (including budgetary systems), Chinese POEs do have their own strengths over Chinese SOEs. These POEs are more profit and cost conscious, more in control about companies' own capital and decisions, and are more self-motivated in using advanced management accounting techniques. According to an interview in Company A, the general manager of K. J. was very happy about working for Company A, because Company A's budgetary system provides him an opportunity of being rewarded by good performance. He said, 'a person like me working in SOEs, will never have any chance to be promoted. You do things well, they don't reward you. You do things badly, they don't punish you. Go to work, go home that is it'.
- c) Because China is in the early stages of developing into a 'modern society' based on market economy, the public feels lost between old and new beliefs. While money has become the only central issue, a vacuum of morality worsens malpractices in social infrastructures. POEs as a relatively weak political group (although POEs may not be weak economically) experiencing high pressure from the current state of Chinese society. Some POEs' solutions for surviving are to manipulate accounts and to bribe governmental officers. That is why in recent years scandals involving POE's money and governmental officers' power have been revealed.
- d) In contrast with black holes and systematic reasons for some Chinese companies' illegal behaviours in accounting, there is also an increasing social force to push Chinese companies and individuals to 'normalize' themselves to face higher professional risks of CEOs. Modern management accounting systems and methods, including budgetary system, have become a device some Chinese companies use to

show a degree of ‘normalization’ towards external society. However, behind the scenes of ‘restructuring’, it is observed in this study that some Chinese companies use this chance to make new companies as empty shelves for money ‘adjustment’ within the group company.

In brief, on the one hand, self-development requires Chinese POEs who have difficulties in financing themselves to adopt Western management accounting systems (such as budgetary system). Chinese POEs have the advantages of motivation and flexibility in learning these new devices, comparing with their SOE counterpart. On the other hand, the installing and practices of Western management accounting system such as budgeting is tangled with some Chinese companies’ illegal economic behaviours caused by deeper systematic reasons (see chapter 5 of this thesis). The use of management accounting techniques including budgeting is not a simple yell for positive development in the context of Chinese private owned manufacturing companies.

### **6.3.2 Employee’s Personal Background and Its Influences on the Use of Budgetary Information**

Based on this study’s analysis in pervious chapters, budgetary participants’ lack of understanding, or misunderstanding towards the real content of budgetary system, is one of the major reasons of their failure in ‘real’ budgetary participation. This current section discusses this issue, with examples drawn from this study’s data.

#### **Employees’ education and training towards budgeting**

The board of directors of Company A who own the capital are local Shun De people with very humble educational backgrounds. Money and the control of the company are their major concerns, rather than specialist know-how of how to achieve these concerns. Mr H, who initiated the budgetary reform, has a degree in Chinese literature. Later he pursued a degree in financial accounting in one of the best Chinese universities of accounting, and gained a certificate of financial accounting. At the time when he studied accounting in China, the modern idea of ‘management accounting’ was new if not totally unknown in China. When the budgetary reform started, Mr H possessed self-taught knowledge about budgeting from a very limited scope of Western books translated to Chinese. Through the years of budgetary practices in Company A, Mr H has accumulated certain experiences and he has tried to implement his theoretical knowledge by extracting these experiences. Some of his concepts overlap with Western conventional wisdom while some of his concepts deviate from what Western budgetary theories suggest. Moreover his words occasionally contradict his practice on budgeting. For example, during an interview in Dec., 2006, Mr H recognized that ‘budgeting is used to plan and allocate resources and transfer tasks’, ‘budgeting is one of the management tools, and it can influence all parts of the organization’. But he also said that ‘budgeting is for control, not for decision making’, and ‘budgeting expresses the results of decision making, not vice versa’. This is different from Hofstede (1968)’s ‘(budgeting is for) improving management decisions’. Field observation of budgetary conferences hosted by Mr H, in Ab on March 2<sup>nd</sup> 2007 (see previous chapters) shows that budgeting obviously helped him for decision making.

In Company A, the other managers’ knowledge about management accounting including budgeting can rarely be more than Mr H. In fact, these managers receive training about budgeting from Mr H. Since Mr H thinks that Company A’s budgetary practice is ‘enough’

and 'proper' to its own stage of development, no deeper research has been done on budgeting between the year of 2004 and 2007. It is arguably true that Chinese companies do not necessarily need to 'perfect' their budgetary practices. Chinese companies could aim rather for a proper 'fit'.

Mr J and other major financial and accounting staff in the headquarters mostly have college degrees in finance or accounting, not management accounting. The general manager's education level ranges from primary school level to college level with less knowledge about financial and accounting. As an example, the general manager of the 6<sup>th</sup> Branch Company of A1 in 2005 knew that budgeting is to help the managers for planning, controlling and decision making, but he didn't know how to achieve these purposes through budgetary practice because of his lack of budgeting knowledge. This manager asked the researcher, 'can you find some simple copies about budgetary system for us? We like to learn more about it and we don't know where we can learn from it. There are no easy-to-understand textbooks in the markets and to be honest, we are hardly able to read thick textbooks after a day's work and to digest them properly. Good and thin books about "what to do" can help us a lot.' The general manager of the 6<sup>th</sup> Branch Company of A1 in 2007 only has the education level of primary school, and has less theoretical knowledge about budgeting than his predecessor.

Most of the departmental managers are promoted from the production line and have a lower degree of education in or a lesser level of knowhow about financial and accounting matters on average than the general managers. This lack of education and training contributes to many departmental managers' reactions at the start of the budgetary reform. These departmental managers treated budgeting as a thunderbolt which forces them to change and



do something they had never heard of before, so that they disagreed with these changes. Hence, this concept limits their use of budgetary information.

The managers in Company A lack formal education or systematic training in management accounting. But in general the more senior position the manager holds the better education level he normally has. Relevant background of business studies helps the managers' understanding of budgetary information.

***Box 6.1 The Relationship between the Managers' Background and These Managers' Understanding of Budgeting (from an Interview with Mr J, the Head of Financial Management Centre of Company A, 2004):***

Mr J said that, 'even the managers, who supposed to have a so-called better quality than common staff, could not understand what they are doing (about budgeting). For the managers who have graduated from business-relevant subjects, things are easier. They know that it is good for the company, and it is good for them in the long-term as well. But for the managers who get promoted because of their achievement in practical work (producing, engineering, and so on), it is always more difficult for them to do the right thing in budgeting. They bargain, or ask for a higher quota, and so on.'

**Employees' age, gender, and previous working experiences (including the ownership of their previous employment companies)**

Firstly, while most of the employees interviewed in Company A age from late 20s to 40s, this factor doesn't show a significant impact on the employees' know-how towards budgetary information as does their level of education.

Secondly, concerning gender, as Mr X said in 2007, since the manufacturing industry is a very tough sort of working place, there are almost no female managers in Company A. Mr H said that he recruits and trains female employees with accounting background to be his secretary or the major accountant of the subsidiary companies. This is due to control and communication purposes, not because gender plays an important role in know-how differentiation towards budgetary information. He said, ‘women are more docile and easier to control. I train them beside me and then send them to be in charge of subsidiary or even branch companies’ money, and to have an eye on general managers. In this way, it is easy for me to know what is happening in junior companies. Also, female major accountants normally communicate much better than male major accountants with male general managers. This then also helps daily operation in branch or subsidiary companies to run smoothly.’ During the field, the researcher did observe a tense argument with a male major accountant and a male general manager in the same company. ‘It just doesn’t work’, said Mr H.

Thirdly, this study finds that the employees’ previous work experiences influence their understanding and use of budgetary information. Employees who used to work for other companies with the budgetary system not only understand the necessity of budgeting in Company A, but can also give reasonable advice on its improvement based on the comparison of different experiences. Employees who used to work for the SOEs (state owned enterprises) which don’t measure employees’ evaluation by their performances, appreciate the motivational device brought by the budgetary system, and hence tend to participate actively concerning budgetary information.

***Box 6.2 Former Working Experiences with Budgetary Systems in Other Companies Help the Employees’ Understanding towards Budgeting:***

*Part 1: An Interview with Mr Yan in K. H. Ltd. on Jan. 19<sup>th</sup>, in 2007*

The Researcher: Hi, when did you come to work for K.H. Ltd.?

Yan: At the end of 2005 and the start of 2006, formally from Jan., 2006.

R: What do you think about the budgetary system here?

Yan: (Eagerly) I think the difficult part lies on the details.

R: What do you mean by this?

Yan: I used to work in a Taiwanese company. They really budgeted into details. Each detailed item of the managerial expense is budgeted. The start of producing in which month totally follows the budgets as well. Whatever the budgets ask us to do, we should do it.

R: Why you left it?

Yan: I couldn't do much thing even with a bachelor degree. It was difficult.

R: So did you work for any company before working for the Taiwanese company?

Yan: I used to work for a SOE producing doors and windows. The management there is looser, more human and culture specific. They calculate the manufacturing fees and management fees monthly. Management accounting follows the realization of budgets monthly as well. I also worked for a company producing the supporting products of the cars before. The company is invested by both private capital and foreign capital. This combination gives it privileges in tax. However since it was a very small company, there was almost no budgeting.

R: Where was the Taiwanese company then?

Yan: It is in Ningbo. The management is systematic. The rules and regulations are very detailed. However, one can't feel warmth of humanity there. We used to do the budgets every month there. The targets were set in the season of sales. Everybody at every hierarchy level participated in it.

R: I see. What do you think about K.H. then?

Yan: K.H. can do better. I mean K.H. can do budgets in more details. For example, the fees for the ISO certificates and other certificates are predictable. The cash flow should be better planned. Actually people from the bottom know best about these items. The custom in the Taiwanese company is to ask people to search for materials by themselves. The custom here instead is that budgeting is pushed by the managers from the top. For the employees underneath the managers, they only have to do more businesses like keeping the accounts. It doesn't really help the manufacturing process.

R: So what do you think is the solution for the problem in K.H.?

Yan: To recruit people with better quality.

R: I see. May I just ask how many workshops does K.H. have?

Yan: Three manufacturing units/ workshops.

R: That is the scale.

Yan: Yes.

R: Thank you very much!

*(Page 2 of Box 6.2)*

***Part 2: from An Interview with Mr Tang, the General Manager of K.R. Subsidiary Ltd., in 2006***

The Researcher: Mr T, could you please tell me about your experience of budgeting?

T: Yes, I started working for another company 6 years ago. I was working for the sales department actually. The company requires me to do sales budgets. From then on, I understood the necessity of doing budgets, and the reasons of doing this.

R: So as far as you are concerned, what is the reason then?

T: Through doing the budgets, the board director's control the general managers. Then the general managers control the board directors back through budgets.

R: So you think it is a mutual control?

T: Exactly. Two way control.

R: How are the things in K.R. now?

T: After being the general manager of K.R. for two months until now, the producing cost has been reduced from 600.0 RMB to 400.0 RMB per unit. It goes well, and it will be better. I have put 5% of the outlays for R&D. There are two types of R&D -- R&D for the outlook, and R&D for the product's structure. We will focus on the second type of R&D.

In brief, the lack of formal education and systematic training about management accounting (including budgeting) limit the employee's knowhow towards budgetary information. According to the study of other merit factors, the researcher discovers that age and gender don't show significant impact on the employees' knowledge and use of budgetary information. But education background in business studies and work experiences in other companies with budgetary practices tends to make it easier for an employee to accept doing budgets. These two elements in personal background enable these employees to understand budgetary information with personal insights. Employees who used to work for SOEs appreciate the performance measurement regime brought by the budgetary system, and thus tend to show an enthusiastic attitude towards it.

***Box 6.3 Employees Used to Work for SOEs Appreciate the Performance Measurement Device Brought by Budgeting (from An Interview with Mr Ch in K.J. Subsidiary Ltd., in 2006):***

R: Do you feel any difference between SOE and private owned companies?

Ch: Very different.

R: How?

Ch: Whatever you are a good employee or a bad one, it is almost the same in SOE. On the contrary, private bosses pay attention to your ability and you can be promoted by your efforts. For money's sake, the better you do in your work, the more you earn.

R: Why it is the same in the SOE?

Ch: The leaders only eat, drink and play. Nobody pays attention to the operation and management. Somebody like me can never be promoted because of my own ability in the SOE. I could only lead routine life without further expectations-- going to work, and coming back home on time.

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### **6.3.3 Different Meanings of 'Control' in Case-study Companies and Their Relevance with the Use of Budgetary Information**

Chapter 2 of this thesis briefly introduced the definition of the term ‘control’ the area of management accounting. Western literature talks about achieving better organizational control through budgetary systems/ the use of budgetary information. In Hofstede’s (1968) behavioural study towards budgetary system, control ‘within an organizational system is the process by which one element (person, group, machine, institution or norm) intentionally affects the actions of another element’. It is defined ‘as a process’. Also according to Hofstede (1968), the word ‘control is also used for the condition to which this process leads’. Case study Chinese companies also talks about achieving ‘budgetary control’, although observed practitioners’ words and behaviours often contradictory. Ostensibly, Western literature and Chinese practices regard ‘control’ as the objective in common of using budgetary information.

However, according to this study of two Chinese companies in the electronic household appliances industry, ‘control’ has different meanings to different people in different situations. These different meanings of ‘control’ which concern budgetary systems and the use of budgetary information can be reflected by case evidences underneath.

- a) Divisional manager in A1’s 6<sup>th</sup> Branch Company asked his senior general manager that, ‘why I have to be designed by figures’, or complained that ‘I don’t want numbers control me’. They don’t realize that by using budgetary information, they can control the operation within their units.
- b) When Mr T, general manager of Ab’s subsidiary company was asked whether he feels comfortable being ‘controlled’ by budgets or not, he answered that, ‘I don’t mind. My senior managers use budgets to control me, but I also control them through budgets. It is a contract. Both sides have to obey it.’ Rather seeing budgets as a device collecting

information from the bottom-up for control purposes, Mr T sees his role in the use of budgetary information as a mutual contract.<sup>1</sup>

- c) Data in Company B in 2007 discovered that after Company B's managers realize that the use of budgetary information can help them to achieve better departmental operation and performance, these managers reduced or stopped falsifying behaviours in budgetary practices. As a result, Company B now basically can smoothly implement its annual. Data in Q. L. Ltd. of Company A reveals that, as soon as general manager realizes that accounting (budgeting) information can help management, he starts including accounting (budgetary) officers into his meetings.

## **6.4 Case-study Companies' Performance Evaluation**

### **6.4.1 Hopwood's (1973) Study of Evaluation Style**

An important study concerning this issue Hopwood (1973) identified three evaluation styles with explanation towards the 'determinants of the use made of accounting information in performance evaluation' and the results brought by using a certain evaluation style. According to his classification, a 'budget constrained style' is 'primarily based upon the manager's ability to continually meet the budget on a short term basis', and 'the manager will tend to receive an unfavourable evaluation if his actual costs exceed the budgeted costs, regardless of other considerations'; a 'profit conscious style' emphasizes 'long run costs for

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<sup>1</sup> Covaleski and Dirsmith (1983) 'propose that the use of budgeting, particularly in the nursing services area where centralized control by a hospital administration may not be attainable, is more complex than this traditional definition would suggest. In such a setting, budgets may well be used as a negotiating tool with which middle level managers advocate the needs of the subunit to upper-level organizational members. Such a use of budgets would emphasize an upward flow of information which is, in turn, consistent with the image the organization wishes to portray to its environment.

any specified level of output', while in this situation 'the accounting reports, while useful, are used with some care in a rather flexible manner. They are seen as one helpful but imperfect means of attaining the wider organizational purposes'; and a 'non-accounting style' refers to the condition that 'accounting information plays a relatively unimportant part in the evaluation of the manager's performance'. Concerning the distinction between a 'budget constrained style' and a 'profit constrained style', Hopwood (1973) clarified that while the former is 'exclusively concerned with behaviours which are measured' the latter 'primarily focuses on behaviours which are desirable from a wider organizational perspective'.

While anxiety towards cost control caused by environmental pressure is discussed as a crucial causal factor for both case-study companies to introduce budgetary system, it does not necessarily mean that these two companies adopt a profit-conscious style of evaluation.

#### **6.4.2 Company A's Evaluation Style**

Firstly (refers to earlier section in chapter 4) Mr H (the key top level financial manager of Company A) claimed that, 'the strategic focus of Company A is profit', 'we win by selling more products with good quality at low prices', 'our competitive advantage is to be fast to produce new products to attract customers', 'and to be flexible to achieve the maximum of profit'. So based on what managers such as Mr H say, Company A seemed to be quite a profit oriented organization.

Secondly, at the level of branch or subsidiary company, as according to an interview with Mr J, A1's 6<sup>th</sup> branch company's situation can well represent the situation in Company A's branch or subsidiary companies, and here it is used as an example to illustrate what Company



A's branch or subsidiary companies do. According to box 4.1, the former general manager of A1 in the Year of 2004 simply forced his junior managers to reduce total costs (mainly total salaries) to reach a lower overall budgetary objective for the branch company. Two years later, in the same branch company, it was observed that Mr H2, the new general manager in the Year of 2007 only considered the branch company as a 'producing unit' for A1 Ltd., whose only task is to accomplish tasks and quota distributed by A1 Ltd. Mr H2's senior manager, Mr J. (who was in charge of overall financial and accounting issues in A1 in 2007), agrees with Mr H2 on the 6<sup>th</sup> Branch Company's role in budgeting and profit control. Due to the fact that A1's 6<sup>th</sup> Branch Company is an important manufacturing company for A Group Company's core company – A1, of a considerably large scale, and it does play an important role in buying and selling relationships within Company A or in external market (refers to box 4.4, 4.5) – these findings are rather disappointing.

As A1's 6<sup>th</sup> Branch Company's former manager may want to reduce cost but end up 'cutting paper figures' without real investigation, let alone collecting and analyzing profit indexes, to achieve a more 'presentable' budgetary report, according to Hopwood (1973)'s classification, his evaluation style is 'budget conscious'. As the 6<sup>th</sup> Branch Company's later manager totally ignores necessity of actively participating in either budgetary control or profit control beyond 'finishing budgetary task and quota', despite his passive attitude of budgetary participation, his style of evaluation is still 'budget conscious'. As it has been discussed in chapter 5, while a manager's evaluation style is largely dependent upon his or her senior manager's evaluation style and thus the style of evaluation is always 'plant wide', it can be concluded that A1's 6<sup>th</sup> Branch Company's evaluation style is budget conscious, based on longitudinal data collected using the 6<sup>th</sup> Branch Company as a focus-studied case of Company A.

Thirdly, at the level of Group Company A as a whole, in 2004 and 2005, Mr H said that ‘budgets are roots, and the other perspectives of management are branches’. Two years later, in ‘Group Company A’s Year of 2007 HR Appointment Ceremony, and Signing Ceremony for the Budgetary Responsibilities’, the board director said that, ‘budget is closely related with the industrial development. The head of each branch company, subsidiary company, and invested company all need to look at it seriously’. Although this conference also reported general operational information (including profit) and strategy, ceremonially it mostly emphasized the need of creating an ‘atmosphere’ enhancing the importance of budgetary system. As it has been observed during this conference, general managers signed contracts with the group company, promising the implementation of annual budgets for the coming year.

Furthermore, as it has been discussed in chapter 5, Company A decided to invest in Zhong Shan W. L. Washing Machine Ltd. This investment didn’t bring good profit return in 2006. As Company A’s high level financial managers said, the more money Company A puts into W. L., the more money was wasted. W. L. will never earn good profit return to Company A. Later, Group Company A’s reaction towards W. L.’s poor profit return was to put more money in for the Year of 2007, and changed the CEO to enforce a better ‘budgetary implementation’. Based on observations about what Group Company A really practice in reality, its evaluation style is in accordance with that of the 6<sup>th</sup> Branch Company, which is budget conscious.

### **6.4.3 Company B’s Evaluation Style**

While the subtlety between a 'budget constrained style' and a 'profit constrained style' can be hard to recognize as most organizations with budgetary system concern about both budgetary indexes and profit indexes. Even Hopwood (1973) pointed out that, to recognize a 'profit conscious style' evaluation one can judge by 'at the very least, it is concerned with the measured behaviours which are consistent with this (refers to organizational) perspective, although the focus can be achieved in such a manner as to stimulate a much more general concern.' However, Hopwood (1973) also claimed that, 'on closer examination', 'the difference between the two styles transcends the statics of the measurement process. Unlike a Budget Constrained evaluation, a Profit Conscious evaluation is concerned with the wider information content, or lack of it, of the accounting reports, and not with just a rigid analysis of the direction and magnitude of the reported budget variances. While the accounting reports clearly indicate whether a manager has been successful in meeting the budget, they do not necessarily indicate whether he is behaving so as to reduce the long run costs, let alone influence other determinants of effectiveness. In order to assess this ability, the reports have to be used with discretion and, where necessary, supplemented and supported by information from other sources. Personal observations and a scrutiny of non-financial records partly fulfil this need, but the supervisor must also use his social skills to gain the insights and experience of his colleagues and subordinates.'

Company A didn't grasp the opportunities for deeper changes after 6<sup>th</sup> Branch Company's failure to implement their budget. Company B experienced a temporary suspension of its budgetary reform one year after the introduction of budgetary system, due to strong resistance, and severe manipulation by general managers and divisional managers who wanted to fake better budgetary implementation for a more favourable results of performance evaluation. But

Company A used these setbacks as learning experience, and began to maintain a certain degree of separation between performance evaluation and budgetary performance. During an in-depth interview in 2005, after around 10 years of budgetary practices in Company B, the company's major financial controller emphasized at this separation. In 2007 while the researcher was doing field work in Company B, it was observed again that the separation between these two has been maintained in Company B to avoid managers' manipulation, and to channel managers' attention towards longer-term overall benefits of the Group Company B. Hence, as an important management device in Company B, budgetary systems are more of a profit-conscious style focusing at an overall long-term organizational perspective.

#### **6.4.4 Determining Factors of Case-study Company's Evaluation Style**

As Hopwood (1973) reviewed the study by Argyris (1953), which regards budgets as 'a medium of personality and leadership expression', and find out that 'supervisors who had impersonal relations with their subordinates tended to use the budget variances as a pressure device, emphasising "meeting the budget" and "not hitting budget", characteristics which are associated with a Budget Constrained rather than a Profit Conscious style'. Also, Argyris (1953, quoted by Hopwood, 1973) suggests that 'the supervisors who used the variances in this rigid manner were "aggressive" and "go-getting"; they were concerned with goal attainment and the instrumental aspects of their task'. These findings are in accordance with relevant observations in this research project's case study companies.

In Company A where the dominant evaluation style is budget conscious (refers to analysis in section 6.3.3 above), both Mr L and Mr H2 (two general managers of A1's 6<sup>th</sup> Branch Company) adopt an 'aggressive' and 'go-getting' style in communication. The former

threatened to fire a divisional manager when the latter refused to do budgets, and the latter considered himself and the 6<sup>th</sup> Branch Company as a 'hard-core' mechanism enforcing 'hitting budget' (refers to his metaphor of 'reaching bananas on the ceiling in earlier chapter of this thesis). As a contrast, according to interactions and observations in Company B, although the general communication (including budgetary communication) is difficult to describe as 'warm', Company B does have a culture of 'soft' communication and 'civilized' interaction. Differences between these two companies may be due to a) supervisor's communication and leadership style; b) different levels of education background (refers to chapter 5 for examples concerning Company B's efforts in employing good quality employees).

#### **6.4.5 Influences of Case-study Companies' Evaluation Style**

According to Hofstede (1968)'s behavioural analysis of budgetary systems, it was discovered that 'a concern with the departmental budget reports resulted in feelings of high pressure and nervousness; against an indiscriminate use of budget results in performance appraisal.' However, 'a wider concern with cost consciousness did not have the same effect.' Hopwood's (1973) study also discussed both the motivational facet of budgeting, and the anxiety, hostile attitude, lack of trust caused by negative facet of budgeting concerning with budgetary evaluation style.

As an example provided by this study, A1's 6<sup>th</sup> Branch Company's failure of achieving budgetary objectives was a consequence of budget-conscious evaluation style determined by different management levels' communication and leadership styles. Had Mr L listened to his divisional managers' advices about drawing 'real' data based on 'real' organizational

activities, or adopted different strategies of communication towards divisional managers with different personalities, A1's 6<sup>th</sup> Branch Company's budgets might have been more practical and thus Mr L might not have been forced to leave Company A due to a big gap between his branch company's budgetary objectives and its implementation. Unfortunately, Mr L arbitrarily adopted a singular communicating style with all the divisional managers. Mr L considered that the divisional managers' lack of understanding was the reason for all the resistances, and he pushed the divisional managers to reduce figures. As a result, Mr L's tough supervising style without effective communication not only did not succeed in persuading the divisional managers, but also lead to the ignorance of useful advices and the failure of setting up proper budgetary objectives. Mr F, the manager of the department of quality control complained that, '(Mr L) just concerned about the performance evaluation, not the actual situation.' Mr L's chief accountant, Mr XH also agreed with Mr L's opinions that all the resistances were due to divisional managers' lack of understanding, without self-reflection on their own supervision style and communication techniques. As it has already been discussed in chapter 5, China's cultural emphasis of hierarchy also influences Company A's managers' 'forceful' style of communication and leadership without effective communication.

## ***6.5 Case-study Companies' Budgetary Participation***

### **6.5.1 'Pseudo' or Real Budgetary Participation?**

According to Hopwood (1973), 'the social meanings, which the manager attaches to the information' are 'determined by his own personality and his perceptions of the pressures and significance of his social environment'. The previous chapter of this thesis gave examples for

'pseudo' bottom-up budgetary participation in Company A. It discussed the emphasis on hierarchy in Chinese culture, strengthened by the system of planned economy which had influenced China for decades before the economic reform. These cultural factors have prevented case-study companies from achieving a real bottom-up budgetary participation and has limited the improvement of the understanding of budgeting for managers at different levels. The changes of atmosphere in Company A's might have shifted the collective acceptance of the importance of budgetary behaviour to a higher level, but it only changed budgetary concepts and behaviours at a superficial level. In other words, it has made employees 'accept budgeting' but not taught them 'how to do budgeting in the right way'. Budgetary process in Company A was an up-down process by nature during the first round of data collection, and it was still an up-down budgetary process by nature two years after the start of reform. Because relevant information has already been discussed in other parts of this thesis, this current section won't repeatedly quote further details concerning this issue.

However, in Company B which has 10 more years experiences of budgetary systems than has Company A, managers have been given a longer span of time to realize that managers themselves are the recipients of the benefits of budgetary systems. According to interviews in Company B in 2007, general managers have come to realize that budgetary information can help them control their junior managers, and departmental managers have in turn realized that budgetary information can help them to control their own department for better performance in the long run.

Although Company A is far behind Company B at present in terms of general managers' awareness about using accounting (including budgeting) information for better control, there are some positive changes in Company A. According to fieldwork in Q. L., a new subsidiary

company of Company A, in 2007, its chief accountant Ah Zh said that, ‘when I firstly came to this company two years ago when it was established, the general manager and marketing manager totally ignore our accounting office in decision making. But now they turn to realize that in fact our accounting officers can help them to make better decision with relevant information. So they gradually pay attention to our office and start including us in their management meetings which used to excluding us to attend.’ In brief, potential positive changes in Company A’s general managers’ opinions about budgetary (accounting) information may gradually enable Company A to catch up with Company B’s level concerning managers’ budgetary participation. In the long run, Company A may develop from ‘pseudo budgetary participation’ to ‘real budgetary participation’, if environmental pressure and self-development require Company A to further change its budgetary participation for better.

### **6.5.2 Case-study Companies’ Technical Improvements in Budgetary Participation**

As has already been discussed in chapter 5 of this thesis, in a context of uncertainty (refers to chapter 4 about environmental pressure in the industry of China’s electronic household appliances companies), Company A has learned to set more practical budgets which are difficult but not impossible to reach, based on accumulation of experience in budgetary practices. This also relies on an overall development in Company A’s level in marketing information management, manufacturing organization, and credit management (refers to examples about Company A’s efforts in developing management by many other management and information technology systems or techniques in earlier chapters in this thesis). Company B has further realized a reasonable separation between performance evaluation and budgetary



implementation. In 2007, it was revealed that because this separation leaves less necessity for managers to manipulate budgetary objectives and budgetary performance, budgetary objectives normally are set at a practical level and 95%<sup>2</sup> of Company B's budgetary objectives can be successfully accomplished based on hard work. These findings suggest that for both Company A and Company B, technical perspectives about budgetary setting and performance evaluation have been improved over the years based on practical experiences. Improvement in budgetary setting reduces task ambiguity and anxiety, and hence contribute to Company A and Company B's improvement in an uncertain environment.

Although Mr XU (the chief accountant of A1's 6<sup>th</sup> Branch Company, in 2007) and Mr Ch (the chief financial investigator in Company B) both allowed the researcher to read case-study companies' improved rules, principles, procedures, and indexes concerning budgetary system and performance evaluation, these details are not allowed to be revealed here due to confidentiality reasons. To be noted, although these technical improvements in budgeting can be considered as a positive phenomenon, the researcher also observed that making 'quantitative indexes of budgetary evaluation and performance measurement' had become a management fashion in Chinese electronic household appliances companies in the area.

## **6.6 Budgetary Changes**

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<sup>2</sup> According to Otley (1978), as a rule of thumb, errors in the output budget in excess of 5 per cent are likely to be statistically significant ( $p = .075$ ). Although this study is not a quantitative statistical study, a 5% difference in budgetary implementation and budgetary objectives is seen as successful implementation of budgetary objectives.

### **6.6.1 Greenwood (1984)'s Antecedents of Successful Changes of Organizational Systems, and Reasons behind Case-study Companies' Budgetary Changes**

Greenwood (1984) examined 'the shift from an incremental budgeting system to a comprehensive (zero-based) budgeting system', and 'identified three antecedent requirements that had to be simultaneously met for change to be successful'. These antecedents include:

- 'Managerial succession at the very top of company (irrespective of whether the new senior appointment was recruited internally or externally)';
- 'The perception of a serious crisis in company performance, whether real or fabricated, that has become widely shared among members of the company';
- 'A 'better' accounting system as a replacement for an inferior system currently in use'.

The start of budgetary reform in both Company A and Company B satisfied Greenwood (1984)'s 'three antecedents of successful changes in organizational systems'. Firstly, both Mr H who was in charge of Company A's overall financial and accounting activities in the Year of 2004 and 2005, and Mr Ch who was in charge of Company B's group financial and accounting activities in 2005 (and his predecessor in 1990s) were nominated and strongly supported by board directors to practice budgetary systems. Secondly, while Company B started its budgetary reform in the late 1990s during a critical period for Chinese electronic household appliances companies, Company A started budgetary reform 10 years later also due to environmental pressure on cost control, as well as on overall organizational control over a fast expanding company. Thirdly, for both case-study companies, modern term budgeting is more advanced than these companies' former 'cash budgeting'. Section 6.6.2 is going to analyze motivating and resisting factors of case study companies' budgetary changes,

based on relevant institutional theories introduced in chapter 2 and interpretive empirical studies introduced in chapter 3. In other words, Burns and Scapens (2000) is going to be examined in this research project's context.

### **6.6.2 Using Scapens et al.'s Institutional Theory Approach in Management Accounting to Interpret Successful and Unsuccessful Budgetary Changes in Case-study Companies**

Management accounting theories adopting an institutional theory framework (for example, Scapens, et al., see previous chapter 2 in this thesis) goes beyond Greenwood (1984)'s work by focusing on the role of rules and routines, and the institutionalization of these rules and routines within companies, as a key to understand successful or unsuccessful changes. Analysis in 6.6.2 may overlap with analysis in previous chapters of this thesis. The researcher suggests that this 'repetition' implies the possibility of multiple interpretations of case study Chinese companies' budgetary changes. These multiple interpretations can implement with each other.

Existing empirical experiences adopting an Institutional Theory Approach in management accounting explain the success and failure of changes. These experiences happen mainly in an Anglo-Saxon context. These studies emphasize the importance of organizational 'routines' and 'institutions'. Previous research focus on how 'routines' and 'institutions' shape the 'process' of organizational change. In the other side of the world in China, globalization brings tenses competition and opportunities of mutual learning. Some Chinese companies, including both case study companies, adopted Western management accounting techniques

and systems, such as budgetary system. These techniques and systems are not only technically new to Chinese corporations, but also contribute as a 'shift' from existing 'rules of thumbs' and 'concepts' in these Chinese companies.

The researcher presumes that there are common features and differences of the success or failure of management accounting changes, between case study Chinese companies and Western companies. The researcher wants to investigate whether Institutional Framework in management accounting, is also useful to explain budgetary changes, in a different research context as China.

Refers to literature review chapter 2 of this thesis, Burns and Scapens (2000) pays attention to the taken for granted 'institutions'. Studies in management accounting changes using an Institutional Framework provide explanations in resistance to change. These studies regard accounting practice as institutionalized routines.

This research project's findings suggest that budgetary changes have happened in case study Chinese companies. There are ostentatious use of budgetary information – ceremonial behaviours, and even manipulation. There is 'pseudo' bottom-up budgetary control.

**Reasons for Success in Budgetary Changes Explained by Institutional Theory Framework in Management Accounting:**

Findings in this research project suggests that continuous communication, top level management's determination, environmental pressure, and companies' self-improvement are all reasons for case study companies' success in budgetary changes. Concerning the factor of environmental pressure, Heiner (1983, quoted in Scapens 1994) argued that 'the greater the level of uncertainty, the more likely decision-makers are to adopt rule-based behaviour'. Case evidences of this study proved this by showing that, in order to thrive in an industry and social economic context with drastic changes, case-study companies continuous apply policies and actions, to imprint employees with the idea of using budgetary information through day to day budgetary activities and continuous communication, to 'institutionalize' budgetary system. Concerning the factor of communication, managers from different levels of management in Group Company A all acknowledge that continuous communication is one of the most important ways to 'imprint' budgeting into the whole organization. Mr C from Company B agrees with them. It is through repeated daily conversation about the importance of budgeting, and through repeated daily practices in doing budgeting, Company A's employees gradually transformed. Some of these employees used to resist budgeting during the first round of data collection of this study. But all employees changed to take budgeting for granted during the second round of data collection of this study. Previous sections of this chapter and previous chapters of this thesis have given further examples concerning the factors of top level management's enforcement and the need of case-study companies' self-improvement.

### **Reasons for Failure in Budgetary Changes Explained by Institutional Theory**

#### **Framework in Management Accounting:**

Burns and Scapens (2000) divided 'resistance to change' into 'three separate but interrelated elements' including 'formal and overt resistance due to competing interests'; 'resistance due to a lack of capability (knowledge and experience) to cope with such change'; and 'resistance due to a "mental allegiance" to established ways of thinking and doing, embodied in existing routines and institutions'. Later studies, Siti-Nabiha and Scapens (2005) as an example, enriched empirical experiences in this perspective by answering the questions of 'why is there resistance to change, what forces are at work, and how do new systems become embedded in the organization'.

Research findings in this project concerning resistance to change include:

Firstly, resistance to change due to lack of capacity. Both of the two studied companies had gone through a difficult period of time at the beginning of their budgetary reforms. Company B nearly abolished budgetary reform one year after the start, due to the strong resistance received. Employees asked 'why do we need to go back to "planned economy" by doing budgeting, after changing into market economy'? (from an interview with Mr. Ch, the vice chief inspector of the department of financial management of Company B, in 2005)'. They didn't understand that the nature of budgetary system is to help managers to gain real information which is market relevant, and then to improve decisions based on the actual situation of the market and the company itself. Neither did the managers realize that budgeting can help them to achieve better performance and better control, which are good for the whole group company in the longer run. It is the Board of Directors' determination which enforced the budgetary system continued to be carried on. Similarly, during the researcher's field work observing budgetary meetings between department managers, major accountants, and the general manager in the 6<sup>th</sup> Branch Company of A in 2004, it was found that

departmental managers didn't understand the necessity of budgeting, and they don't want the 'hassles' of preparing budgets by themselves. Although the general manager has a better understanding towards the necessity of budgeting, he and his major accountants didn't really know how to do it, and asked the researcher to introduce easy-to-understand books about budgetary system to them.

The lack of understanding towards the modern-term budgeting made the general manager order junior managers to cut figures according to the general manager's own will, rather than basing budgets on real information. These in turn lead to the substantial failure of this branch company's budgetary realization for the Year of 2005, and the resignation of the general manager Mr Li himself.

Lack of training in modern-term budgeting also confused practitioners. According to the review work of Li (2009), China's academic practices differ from Western management accounting theories in 'definition, frameworks, profession, and morality'. Also, there is 'no professional committee, no systematic study, and no potential academics and practitioners in the area of management accounting' in China at the moment.

While Li (2009)'s comments may sound passive, statistics doesn't really show a better picture. Although it is hard to tell the exact number of Chinese universities (including colleges), it is estimated that there are 1,500 in total. Disappointedly, it is hard to find independently designed management accounting courses (at undergraduate, postgraduate or doctoral level), even in the best Chinese universities. Moreover, among universities which

provide study in this subject, management accounting is normally designed as a course within a programme only. A very limited number of students are recruited and trained for study involving management accounting. For example, according to Chinese Universities' information book for students' entrance, The Management School of Peking University recruits one master-doctoral student for the academic year of 2009-2010, while management accounting is only an optional course, not an independent area. Fudan University (ranked at No. 6 among Chinese universities) accepts 3 doctorate students in accounting for the academic year of 2009-2010. Details about course design concerning management accounting are not available. Despite these two cases, looking through the information list of Chinese universities, only Nanjing University and The People's University accept doctorate students in management accounting for the academic year of 2009-2010. Under these circumstances, it is really not a surprise at all that the lack of knowledge of Chinese practitioners leads to resistance of difficulty to change when studied companies implement budgetary system.

In addition, this research project also finds that, in general, the senior the managers are, the higher education these managers received, the easier or better they tend to understand the necessity of budgeting. Employees with an education background of business or social studies in general understand the necessity of budgeting easier, and resist less than employees who have an engineering background tend to resist budgeting more at the beginning, they do provide sound advice for practical matters concerning budgeting. Furthermore, although managerial experiences at a higher level, or business study education background may reduce resistance for accepting doing budgets, lack of training which leads to lack of capacity still



remain a cause for resistance to 'real budgetary control'. This will be further discussed in later section concerning conflicting 'institutions' which prevent bottom-up budgeting.

Employees who have experience in other companies which practice budgeting not only resist much less in budgeting, but also are more willing to give suggestions on how to improve budgeting. This can contribute as a positive force which helps to promote 'real budgeting' in the future. For example, according to an interview on Jan. 19<sup>th</sup>, 2007, Mr Yan (an accountant of K. H. Ltd., one of Company A's subsidiary companies) used to work in a Taiwanese company which practiced budgeting and 'budgets into details', and a State Owned company whose management accounting activities 'follows the realization of budgets monthly'. Based on these former working experiences, Mr Yan was able to provide suggestions for better budgeting in Company A. He said that the fees for the ISO certificates and other certificates are predictable. The case flow should be better planned. Actually people from the bottom know best about these items. The custom in Taiwanese company I used to work for is to ask people to search for materials of budgets by themselves. The custom here instead is that budgeting is pushed by the managers from the top, while employees underneath the managers only have to do things like keeping the accounts. It does not really help the manufacturing process.' While Mr Yan's suggestion of solution for problems encountered in Company A is 'to recruit people with better quality', it implies that the lack of capacity acts as an important reason for resistance to 'good' budgeting.

Secondly, resistance to change due to conflicting interests. Departmental interests were also found to be relevant with employees' budgetary concepts and behaviours. While the conflict caused by departmental interests doesn't directly reflect in resistance to budgetary changes, it

instead hinders the deepening of budgetary reform by adding difficulties into it. At the start of budgetary reform in Company B, departmental or general managers did 'creative budgeting' to gain better benefits for their own units. As a result, while the budgets were submitted to top level managers of the group company, conflicting figures were shown. In order to achieve a more 'real' budgeting which reflects more about the actual information, the top management of this group company decided to partially separate budgeting from performance measurement. In the year of 2007 for example, it was revealed that because this separation left less necessity for managers to manipulate budgetary objectives and budgetary performance, budgetary objectives in general were set at a practical level and 96% of company B's budgetary objectives could be successfully accomplished based on hard working.

In Company A, this difficulty of budgeting caused in part by conflicting interests was clearly shown by the event that powerful core producing company (Branch Company 6 of A1)'s behaviour of forcing a minor producing company (K. H. Ltd.) to bear the burden of out-of-date modelling machines for them. The general manager of K. H. said in the meeting for the budgets of the Year of 2007 that, 'we can definitely accomplish agreed budgetary objectives if they do not transfer useless old style modelling machines to our storage place, and force us to calculate these machines as our costs, instead of theirs. They did the same thing last year to achieve better budgetary results'.

Thirdly, resistance to change due to a 'blaming' company culture. As Hopwood (1973) reviewed Argyris (1953)'s study, which regards budgets as 'a medium of personality and leadership expression', and find out that 'supervisors who had impersonal relations with their

subordinates tended to use the budget variances as a pressure device, emphasizing “meeting the budget” and “not hitting budget”, characteristics which are associated with a Budget Constrained rather than a Profit Conscious style’. Also, Argyris (1953, quoted by Hopwood, 1973) suggests that ‘the supervisors who used the variances in this rigid manner were “aggressive” and “go-getting”; they were concerned with goal attainment and the instrumental aspects of their task’. These findings are in accordance with relevant observations in this research project’s studied companies.

In Company A where dominant evaluation style is budget conscious, both Mr L and Mr H2 (two general managers of A1’s 6<sup>th</sup> Branch Company) adopts an ‘aggressive’ and ‘go-getting’ style in communication. The former threatened to fire a divisional manager when the latter refused to do budgets, and the latter considered himself and the 6<sup>th</sup> Branch Company as a ‘hard-core’ mechanism enforcing ‘hitting budget’ (refers to his metaphor of ‘reaching bananas on the ceiling in earlier chapter of this thesis). Mr L’s personality and leadership style prevented him from listening to Mr Lv, departmental manager of the 4<sup>th</sup> department of the 6<sup>th</sup> Branch Company, about the unrealistic approach in estimating fees of machines’ maintenance and repair. This partly contributed to the setting of unrealistic budgetary objectives for the 6<sup>th</sup> Branch Company for the year of 2005, and the failure of achieving it. When the 6<sup>th</sup> Branch Company of A1 substantially failed to reach the budgetary objectives for the year of 2005, senior managers and board of directors of group company A blamed Mr L for failed results, instead of digging further for real reasons behind it (refers to 5.4 for deeper discussion about this case). Hence, they lost a chance to achieve better budgeting and the new general manager for the 6<sup>th</sup> Branch Company, Mr H2, showed no fundamental

improvements about budgetary control, when the researcher returned to the site for the second round data collection.

As a contrast, according to interactions and observations in Company B, although the general communication (including budgetary communication) is difficult to be simply described as 'warm', Company B does have culture of 'soft' communication and 'civilized' interaction. This allows them to be more objective and patient, to look at problems arise during budgetary process, instead of blaming one single person for the total failure of a certain department or a certain year's budgetary achievement. As a result, Company B developed a method partially separate budgetary objectives' implementation from performance measurement. And this significantly improved Company B's overall budgetary control. Differences between these two companies may due to a) supervisor's communication and leadership style; b) different levels of education background.

Fourthly, resistance to change due to conflicting institutions. It is generally recognized in Western literature that, the fundamental core of budgetary control system is 'bottom-up', to gather real information from all levels, in order to achieve better managerial decisions and overall control for the expanding decentralized organizations. However, existing 'institutions' in case study companies emphasizing up-down obedience, conflict with 'institutions' underpinning bottom-up budgetary control. Resistance to change deprive from this reason was found not only at the beginning of case study company's budgetary reform, but was also found at later stage of budgetary implementation.

Using the 6<sup>th</sup> Branch Company of A as a focused-study case, when the budgetary reform started at the end of Year of 2004, during budgetary meetings among departmental managers and general managers, the first departmental manager observed by researcher refused to ‘have the rights’ of doing budgets for his own department. Instead, he preferred to ‘take the order and accept numbers’ from the general manager, and then himself and his department will just ‘follow the order and do things as it is needed to be done’. Being used to obey senior managers, junior managers resisted the ‘institution’ of bottom-up budgeting. The situation was not better in the case of senior managers’ understanding towards the ‘institutions’ of real budgeting. Two years later, when the researcher interviewed the new general manager, Mr H2, of the 6<sup>th</sup> Branch Company of A1, and Mr Jiang, the chief financial manager of A1, they both said that ‘the top level management made budgetary objectives, while branch companies achieve it.’

It is the conflict of institutions, instead of a ‘blaming’ company culture and leadership or communication style alone, made the top-down budgeting an organizational phenomenon in company A. It hindered junior managers’ willingness of budgetary participation, senior managers’ unwillingness of listening to subordinates, led to the 6<sup>th</sup> Branch of A’s failure in budgetary implementation for the Year of 2005, and prevented Company A’s budgetary practice to be gradually improved into a better level.

### **How to solve and problem – to fundamentally change the ‘institution’?**

Findings show that education background and working experiences were found to be relevant with employees’ ‘capacity’, and hence the lack of this capacity contributed to resistance to

change in case study companies' budgeting. Improving employees' 'knowhow', and adjusting supervising and communication style are necessary measures to reduce resistance to budgetary changes. Conflicting interests were found to add difficulties to both case study companies' budgetary practices. Hence senior managers' attention and measurements to avoid or reduce departmental conflicts in the process of budgeting can reduce resistance to budgetary change. Company A's senior manager discovered departmental conflicts during budgetary conferences, while Company B's senior management partially separate budgetary implementation from performance measurement to reduce conflicts. These show that communication and technical solutions can both reduce difficulties in budgetary by soothing departmental conflicts. In spite of a 'blaming' company culture and leadership style, conflicts in 'institutions' have been found to be a substantial reason for resistance to bottom-up budgeting in case study companies. Measures concerning China's specific cultural factors shall be especially considered in order to handle resistance to budgetary change from the 'roots' of problems. Practitioners and academics shall pay attention to the hierarchy emphasizes in Chinese culture, strengthened by the regime of planned economy, which shaped the existing up-down 'institutions' in Chinese organization. Unless the bottom-up 'institutions' underpinning modern-term budgetary systems can be really transformed or established in Chinese companies, Chinese companies' budgetary practices will only stay at a superficial level of bureaucratic formality, not matter how 'deeply budgeted' their practices appear to be.

Briefly speaking, reasons for resistance to change proposed by Scapens et al.'s institutional theory framework in management accounting were all discovered in case study companies, even in a different cultural economic context of China. Yet special attention shall be paid

towards what the existing ‘institutions’ are in China’s context, and how to handle its conflicts with ‘institutions’ shaping bottom-up budgeting. Resistance to budgetary change happened in parallel with deepening and expanding of budgetary reform in both companies, due to continuous communication, top level management’s determination, environmental pressure, and companies’ self-improvements. The ‘gaming’ between resistant forces and enforcing forces, the degree of transformation in ‘institutions’, decide case study Chinese companies’ budgetary results. This research project suggests that managers’ real concern towards using accounting (budgetary) information for management, has the potential to be a dominant factor in promoting ‘real’ bottom-up budgetary practices in Chinese companies.

To summarize for current section 6.6.2, this research suggests that Burns and Scapens (2000)’s Institutional Theory Approach in management accounting are still useful in explaining the success and failure of budgetary change, even in a different context such as China. However, Burns and Scapens (2000) focus on using Old Institutional Economics. Burns and Scapens (2000) can not sufficiently ‘interpret’ case study Chinese companies’ budgetary changes from a more sociological perspective. This research project suggests that, when applying Burns and Scapens (2000) in China, researchers also need to understand Chinese social context. Developing Burns and Scapens (2000) towards a more OIS (Old Institutional Sociology) or even NIS (New/Neo Institutional Sociology) oriented perspective can help management accounting studies to successfully understand Chinese companies’ budgetary changes.

### **6.6.3 Using Other Institutional Theories’ To Interpret Budgetary Changes in Case-study Companies**

While Scapens et al.'s Institutional Theory Framework explain how management accounting changes successfully or unsuccessfully happen in organizations due to the 'institutionalization' or resistance towards 'taken-for-granted' assumptions, referring to literature review chapter of this thesis, institutional and neo-institutional theory in sociology try to explain changes vs. the maintenance of status quo by the tension between institutional (legitimacy) and technical (efficiency) pressures. In more details, organizations are considered to be influenced by normative pressures, sometimes arising from external sources such as the state, other times arising from the organization itself. Under some conditions, these pressures lead the organization to be guided by legitimated elements, from standard operating procedures to professional certification and state requirement, which often have the effect of directing attention away from task performance. Adoption of these legitimated elements, leading to isomorphism with the institutional environment, increases the probability of survival. While the old institutional focus was on formal rules ("by the book" procedure) and value-maximizing rationality, the new focus is on the role of norms, symbols, myths, belief systems, and informal arrangements forming the culture of the organization. This perspective implements what can be explained/ interpreted by Burns and Scapens (2000). Data analysis chapters of this thesis have already discussed case evidences showing the need of 'normalization' in Chinese companies.

#### **6.6.4 Summary: Changes and Maintenance of the Status Quo in This Research Project's Case-study Companies**

Based on institutional theories mentioned above, successful changes in case-study companies can be explained by the relationships and formulation among rules, routines, institutions, habit, congruence, and institutionalization. In these two companies, by using rules and



continuous communication, budgetary reform started respectively. Resistance occurred because modern term budgetary system is different from existing habit of cash budgeting and 'taken for granted' concepts about receiving orders from senior managers. However, top management's push and the strengthening of rewards and punishments have forced managers to accept budgeting as rule-based behaviour to avoid difficulty, or at the cost of undertaking assessments on every occasion. While both companies have kept implementing rules about budgeting and continuously communicating about the importance of budgeting (through both formal and informal methods), budgeting has finally been accepted as repeatedly following rules --routines. Changes include both formal changes (i.e. Company A's budgetary ceremony, and both companies' development in evaluation indexes) and informal changes (i.e. conceptual changes about the necessity of doing budgeting). Departmental conflicts due to budgetary evaluation not only cause twists and turns in these two companies' budgetary reform, but also in its own way enable these two companies to improve in order to solve the problems (i.e. Company B's separation between budgetary evaluation and budgetary implementation). This proves that conflicts can also contribute to organizational changes.

Although Company A has achieved fast ostensive improvement, till the Year of 2007, despite a general acceptance of doing budgets, A1's 6<sup>th</sup> Branch Company had not achieved revolutionary changes – i.e., a change of nature in budgetary process (refers to earlier section of this chapter and earlier chapter for 'pseudo' budgetary participation). Chinese culture about hierarchy shapes A1's 6<sup>th</sup> Branch Company's taken-for-granted up-down concepts, which conflict with the bottom-up taken-for-granted concepts in Western management accounting theories. Up-down supervisor style also influenced by this hierarchical culture has

prevents it to become a contingent which may positively change the old taken-for-granted concepts to the new.

However, Company B's better situation than Company A in achieving revolutionary changes in budgeting, suggests that fundamental changes in Chinese electronic household appliance companies budgetary system are not totally impossible. Depending on a recent case in Q. L. Ltd, the researcher discovered that general managers or divisional managers' real concern about using accounting (including budgetary) information for management decisions, gradually bringing substantial changes in Q. L.'s budgetary concepts, which in turn influence their budgetary behaviours. Not accidentally, based on data collected in Company B, in 2007, it was also discovered that the reason why Company B's managers finally stop resisting budgeting is that they finally realize budgetary system can actually help them to control their junior managers and units. Hence, within a different context as China, data of this study shows that managers' real concern for using accounting (including budgetary) information for inner control and management, due to the necessity of self-development, may balance against cultural influences on taken-for-granted concepts, and help bottom-up budgetary concepts slowly be accepted as taken-for-granted concepts, and thus bring a substantial budgetary change to Chinese companies.

To be noted, according to this study's data, supervisors' communication and supervising style, budgetary techniques (for example, separation of budgetary evaluation from budgetary implementation has effectively stopped manipulation in Company B's budgetary process, and guaranteed proper budgetary standards to be set and budgetary objectives to be implemented) can serve as moderate factors influencing the success or failure of 'institutionalization'.

## **6.7 Conclusion**

As Hopwood (1973: p. 185) said, ‘the use which is made of accounting information is a crucial determinant of the final consequences and effectiveness of any accounting system’. Lowe (2004)’s study about ‘a “black box” in the costing of blood products’ reveals the complexity of the use of accounting information which people put no notice in. Otley (1978) discussed that ‘the effectiveness of a management accounting system depends not only on the appropriateness of its technical characteristics to the particular organizational and environmental circumstances to which it is applied, but also on the way in which organizational participants make use of the information that it provides. It is a commonplace that accounting information is often ignored, sometimes manipulated, and even falsified by those to whom it is provided’. Also by Hopwood (1973), ‘even though the organizational norms may emphasize its significance, the interpretation given to the information is usually determined by the managers using it’. This chapter focuses on case study companies’ use of budgetary information. Attributes influencing managers’ personality, leadership style, communication which in turn influences managers’ concepts and behaviours towards budgetary information, are discussed in this chapter.

While Hofstede (1968)’s study suggested that, ‘there was no evidence of a relationship between the supervisors’ education and their style of evaluation’, ‘however, the information on the supervisors’ age, length of time in the company and time in their present jobs provided some more interesting insights.’ This chapter finds out that employees’ education background and working experiences do have close relationships with their concepts and behaviours towards budgeting. While age doesn’t show as an important contingent, gender difference is

used by top management in one of the case study companies especially, to promote better communication and surveillance (control) in budgetary process.

Based on Hopwood (1973)'s classification of budgetary evaluation style, this chapter analyzes two case study companies' budgetary evaluation style, and suggest that Company A at this stage is of a 'budget-consciousness' evaluation style while Company B has a tendency to be of a 'profit-consciousness' evaluation style more focuses at organizational long-term perspective. Cultural, managers' education background, and managers' supervising style all contribute to these two companies' evaluation styles. Frustration, anxiety, inefficient communication caused by Company A's budget-consciousness evaluation style is explained in this chapter as one cause for A1's 6<sup>th</sup> Branch Company's failure in bottom-up budgeting.

Relating with relevant literature, this chapter analyses case-study companies' budgetary participation. Company B has changed from budgetary manipulation in its early years after the initiation of budgetary reform towards a better budgetary participation with a 95 percentage of budgetary implementation, through continuous communication, rule implementation, and a separation between budgetary evaluation and budgetary implementation to a certain degree. However, Company A has a 'pseudo' budgetary participation by which a real bottom-up budgetary control cannot be achieved, despites superficial changes in ceremonies, acceptance of doing budgets, and technical implementation of budgetary indexes.

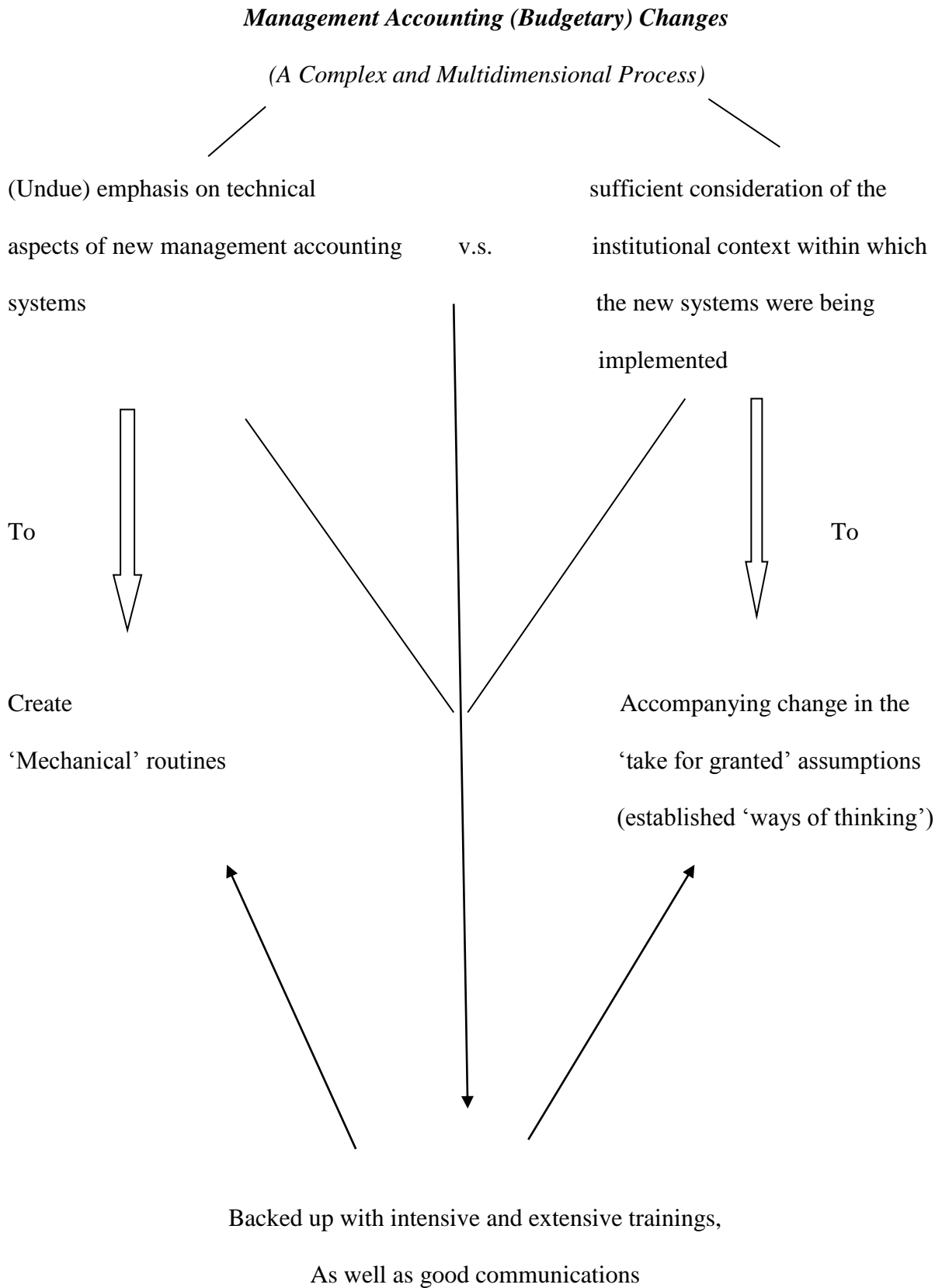
This chapter uses Greenwood (1984)'s antecedents of successful changes of organizational systems, and Scapens et al.'s Institutional Theory Framework in management accounting to explain changes in both companies. This study's findings are in accordance with Greenwood

(1984)'s causes for budgetary changes. Scapens et al.'s theories are able to explain both success and failure in changes of this research project's case study companies. But Scapens et al.'s Institutional Theory Approach in management accounting has limitations for this study, because it pays limited attention to organisational contexts.

This chapter suggests that managers' change towards a real concern about using accounting (including budgeting) information for management decisions and control, caused by environmental pressure and company's self-development, functions much better than ostensive ceremonies concerning the issue of revolutionary budgetary changes. This factor may potentially balance against Chinese culture's negative influence in company's 'take for granted' concepts, and slowly bring bottom-up western budgetary concepts towards Chinese companies, which then can lead to substantial/ revolutionary changes.

This chapter also claims that supervisors' communication and supervising style and budgetary techniques can serve as moderate factors influencing the success or failure of 'institutionalization'. To be noted, budgetary techniques are not only treated as a phenomenon reflecting development in Company A and Company B, but also are suspected as a result of 'following' newest management accounting fashions, and hence its partial blindness causes a reserve towards positive influences budgetary techniques may bring. This study confirms that it is not possible to understand budgetary issues in these two case study companies by looking at the technical perspective alone. Budgetary techniques have to be situated in a contextual background and to be related with behavioural aspects of budgeting to explain changes (figure 6.1).

**Figure 6.1 Understanding Management Accounting (Budgetary) Changes:**



## **Chapter 7 Discussion and Conclusion**

### ***7.1 Introduction***

This study's research objective is to examine the applicability of Western theories of change in management accounting in the context of budgeting in Chinese corporations. By taking an interpretive and constructive philosophical underpinning, this thesis allows the possibility of using different Western theories to explain the case study companies' change in budgeting. By introducing Laughlin et al.'s studies (1987, 1990, 1995, and 2004) towards 'middle range' thinking, this thesis reviewed different approaches to study management accounting change. The introduction of Colaveski's review (1996, 2003) of different streams of budgetary studies allows this thesis to recognize the strengths and weaknesses of different budgetary theories. Hence, since all empirical studies are partial, no one particular approach or theory is superior. Different theories of change can be applied to interpret the same set of data. Through a longitudinal qualitative case study, the researcher was able to observe Chinese companies' change through time. This observation enables the researcher to understand the reasons, content, and process of the case study companies' budgetary changes. Relating this rich data to multiple Western theories of change concerning budgeting, enables this thesis to explain success and failure of budgetary changes. The comparison of the two case-study companies' budgetary concepts and behaviours reveals the tendency of development. Qualitative data analysis software QSR NVivo is used to record and analyze a massive amount of data.

### ***7.2 The Applicability of Theories of Change in a Different Context***

This thesis satisfies the research objective of examining the applicability of Western theories of change in management accounting in the context of budgeting in Chinese corporations. Contingency theory of change is found useful in this study's specific context, although not sufficient. The analysis of other managerial accounting and managing systems are introduced during the span of observation. 1) Environmental factors have causal relationships with the case study companies' budgetary reform. 2) An organization's structural change is often in parallel with budgetary reform, but there is a gap between the two in the studied companies. 3) Continuous changes in employees' attitudes and understanding occur. 4) There are changes in performance evaluation and measurement. 5) Changes in information technology and other management techniques concerning budgeting also take place. As a whole, budgetary practice in the two case-study companies lies in a context of continuously changing environment, structure, attitudes and understanding, performance management, and other systems and techniques. These perspectives interlink with each other and have an impact on the overall development of the companies. However, the contingency theory approach in Western management accounting literature concerning budgetary systems alone is not sufficient in explaining the case study Chinese companies' budgetary practices. For example, contingency theory recognizes that environmental factors impact upon organizational effectiveness. But only in-depth case studies can reveal which environmental factors exactly, and how do they impact upon Chinese companies' budgetary effectiveness. Using traditional questionnaire method based on the contingency theory approach alone, can only reveal superficial results in a different context as Chinese electronic household appliances industry.

Institutional theory of change is found useful in explaining the success and failure of budgetary changes in case study companies, especially the reasons for the resistance to



change. All three factors of Burns and Scapens (2000)'s resistance to change were found in case study companies. Resistance due to capacity means education background and former working experiences of employees matter in their understanding of budgeting. Age and gender do not appear to be relevant. Resistance to change due to conflicting interests add difficulties to the case study companies' budgetary changes. But this thesis finds that communication and technical solutions can both reduce resistance. This thesis also finds that resistance due to conflicting 'institutions' leads to pretentious outcomes in the case-study companies. Budgetary changes were implemented at a ceremonial level. Real 'bottom-up' budgeting was not achieved. But this thesis suggests that managers' real concern of using budgetary information for managerial decisions has the potential to act as a dominant factor to promote real 'bottom-up' budgeting in China. Hence this approach is still applicable in China. However, future researchers need to understand China's specific 'institutions'. Also, there is potential for this approach to extend towards an OIS perspective for the future study on China.

Other Western budgetary studies are also found useful in explaining the use of budgetary information in the case study companies. For example, Hopwood's behavioural studies identified three evaluation styles (1973). It is found useful in piercing through the 'façade' companies present for themselves and identifying case-study companies' real evaluation style in budgeting, which helps to explain the budgetary outcomes. Although Company A seemed to be a profit oriented corporation, its budgetary evaluation style is budget constrained. This adds a lot of pressure on budgetees and worsens the tension between general managers and departmental managers. As a contrast, Company B sets a positive example of a profit conscious budgetary evaluation style. This in turn helps Company B to avoid managers'

manipulation for the purpose of achieving a better budgetary performance evaluation, and to encourage managers to aim at the long-term benefits of the overall company. Greenwood (1984)'s study of reasons for successful management changes all have been found in this study – top management's support, a crisis, and a superior system available to substitute the existing system. After Hofstede (1984)'s study about culture, Nobes and Parker (2002)'s international comparative study not only gives comments on the relationship between culture and accounting in general, but also specific insights into Chinese accounting practices by foreseeing 'accounting continues to evolve' yet accounting 'is likely to be affected by any future economic and political changes'. Case evidence confirmed both. For example, Chinese government's strengthening of regulations stimulates companies' normalization through using budgetary systems, yet manipulation in political and taxation systems contribute to companies' manipulation in accounting which in turn complicates budgetary behaviours. Ostensibly, Western management accounting literature, for example Hofstede (1968), and Chinese companies both see 'control' as the objective of budgeting. However, case study companies show that different meanings of 'control' exist, according to different people in different situation.

Hence, Western (management) accounting theories are useful in explaining Chinese companies' budgetary changes. The difficulty lies in the lack of understanding of Chinese context to implement with these Western theories of change.

### ***7.3 The Tensions of Chinese Companies' Experiences***

Tensions exist between Chinese companies' desire of introducing advanced management accounting systems and the reality.

My first research question asked the motivation behind the use of budgetary systems in case-study companies. Tensions caused by the environment forced Chinese companies to introduce budgetary systems and other management accounting techniques, and to keep using them. Tensions motivating the use of budgetary systems exist at two levels. First, external competition from other Chinese companies and from other Asian countries, the change of RMB's exchange rate, the increase of raw materials' prices and the requirements for better labours' benefits all pressure Chinese companies to reduce costs. Budgetary control system is one of the first Western management accounting techniques these companies seek to achieve this purpose. Second, social and economic pressure in normalization strengthened case-study companies' needs to use management accounting systems including budgeting to present themselves as well developed corporations, who obey domestic laws and international regulations. To be noted, Chinese companies' efforts for the purpose of normalization by using management accounting systems can be a 'fashion' in management, and can be a façade covering up manipulative behaviours including double accounts, fake structural adjustment, and ostensible subsidiary companies which are established as 'empty shelves' to transfer money. There phenomenon which are not exposed to public at present may create further tensions for the future.

My second research question asked the content and processes of case study companies' use of budgetary system. Ostensibly, the content and processes of Chinese companies' use of budgetary system are in accordance with Western text books. Case-study companies do

introduce a series of rules and regulations to enforce budgeting at every managerial level. Case study companies even adopt the method of rolling budgeting, to make the budgetary objectives more flexible and truthful to the changing environment. Budgetary behaviours do involve different functional parts of the group company such as marketing, production, accounting and finance, and R. & D. By doing so, case-study companies claim that they do achieve an overall budgeting. In terms of content, tensions exist when Chinese companies start introducing budgetary systems due to two main reasons. First, the lack of training and education in management accounting in China make the managers lack the know-how about how to prepare budgets. Repeatedly discussed case evidence is the 6<sup>th</sup> Branch Company of A1's budgetary meeting between the general manager and departmental managers. The general manager cut the figures arbitrarily, since he doesn't know how to decide budgetary objectives. This leads to the failure of this branch company's budgetary implementation and tensions accompanied it. Second, tension exists due to the conflicts between existing organizational institutions and the institutions underlying Western budgetary systems. By misunderstanding the meaning of modern 'budgeting', managers in Company B asked that why operational practices had to 'go back to the era of planning economy', managers in Company A asked that why production managers had to do budgets themselves since these managers considered that anything concerning figures should belong to the responsibilities of general managers or accountants. To be noted, during the second round of data collection, the researcher found that Chinese companies start using complicated budgetary indexes. However, these budgetary indexes were more of a fashion in management rather than of substantial importance in this research context.

In term of the process of budgeting, tension exists especially when there are departmental conflicts in interests and when departmental managers want to present a better budgetary

implementation than what it really is. In Company A, the core production company A1 bullied a subsidiary company to allocate A1's redundant facilities. By doing so, A1 hoped to gain a better budgetary evaluation. The subsidiary company reported this to top manager Mr. H. Facing this problem, Mr. H. successfully guided these two companies towards a more constructively competing yet cooperating relationship. In Company B, at the start of budgetary reform, figures received by the top management are always found conflicting with each other, since departmental managers made up data to gain better budgetary evaluation and more favourable resource distribution. Technically, Company B gradually separates performance evaluation from budgetary implementation to a certain degree, and this measure helped to reduce tension. To be noted, continuous communication among general managers, major accountants, and departmental managers is observed to be one of the most important solutions of reducing tension in budgetary process. In summary, the transformation in organizational 'institution' towards accepting doing budgets through the practices of rules and continuous communication, together with managers' growing concern of using budgetary information for managerial decisions based on the long-term benefit of the overall group company, shall be the fundamental solutions to ease tensions in Chinese companies' budgetary process.

My third research question asked about budgetary changes in terms of practices and concepts, and the influences of these changes in case study companies. In spite of suspensions and setbacks, in general, budgetary practices in case study companies improve through time, in parallel with a gradual acceptance of doing budgets, and the deepening of understanding of budgetary process. In terms of budgetary practices, both companies have gone through a changing pattern of introduction of budgetary system – resistance from managers – top management's enforcement – resuming budgetary practice and implementing budgeting to

further degrees. An interesting observation is that with a very limited amount of theoretical support and training, Chinese companies keep learning from their own budgetary practices, and both companies reached a stage of budgetary practices which suits each company's own stage of development. For example, it was difficult for Company A to set realistic budgetary objectives at the beginning. After two years, the researcher observed that the group company learned to set difficult yet attainable budgetary objectives based on experiences learned through mistakes. In terms of budgetary concepts, initial resistance and even resentments (due to extra workload imposed by budgetary system) have been substituted by an overall willingness of budgeting in both companies. For example, witnessing the conflicting budgetary meeting and departmental managers' concept of budgeting in the 6<sup>th</sup> Branch Company of A1 during the first round of data collection, the researcher could not have foreseen the level of importance that budgeting is perceived in employee's concepts reflected by Company A's budgetary conference Year 2007. However, in Company A the change in budgetary concept only stops at the level of accepting doing budgets. It has not successfully changed into a bottom-up budgetary 'institution'. For example, during the second round of data collection, the new general manager of the 6<sup>th</sup> Branch Company of A1 only regards this branch company as a production machine which helps A1 to reach budgetary objectives. Neither did this general manager nor did his superior see the necessity of bottom-up budgetary participation. The failure in deeper level of change of budgetary concepts is caused by cultural and social concepts which shaped Company A's existing 'institutions'. These Chinese traditional concepts emphasize at hierarchy, conformity, i.e. doing what you are told to do. In this situation, although it was environmental pressure which directly motivated Chinese companies' introduction of budgetary system, the researcher suggests that it shall be managers' real concern of using budgetary information to make better decisions for the long-term benefits of these managers' own departments, branch or subsidiary companies, or even

group companies, that can successfully achieve a real bottom-up budgeting in Chinese companies.

My fourth research question asked the similarities and differences in budgetary changes between two companies studied. Company B is more successful in achieving positive changes in budgetary practices and budgetary concepts. Company B has more mature measurements in budgetary evaluation which encourages budgetary participation. Company B has a profit oriented budgetary style which benefits the group company and reduces budgetary tensions. Company B recruits better educated employees which made the transformation in budgetary concepts easier. Since Company B started budgeting nearly 10 years earlier than Company A, Company B's better level in budgeting and the differences between two case study companies may represent the direction of future development of budgeting in Chinese companies. Company A's budgetary evaluation style is budget restrained, although the company claimed itself to be a profit oriented organization. This caused more tension in its budgetary process. These two companies are both affected by Chinese cultural and social economic context. Although both being situated in the district of Shun De, thanks to a more open-minded management policy and a more all-inclusive recruiting strategy, Company B suffered less in the tension caused by the conflicts between indigenes and transplants.

My final research question asked the possibility of using Western theories of change in management accounting to explain the studied companies' introduction of budgetary systems. Research findings of this thesis suggest that it is not only possible, but also necessary, to combine a number of Western theories of change in management accounting to explain

budgetary systems in China. This thesis agrees with the ‘beyond budgeting’ movement in Western literature which break the unnecessary boundaries among different approaches, and suggests to understand budgeting in the context beyond mere technical concerns. Western theories of change naturally show their limitations in explaining specific contextual reasons for certain successful or unsuccessful budgetary changes. This thesis adds empirical experiences in a different context to implement with existing literature. Refers to 7.2 for details.

#### ***7.4 The Limitations of This Study and Opportunities for Future Research***

This study shares strengths and limitations with qualitative study in general. While being ‘subjective’ is unavoidable, this study follows scientific research procedure, keeps ‘staying back’ and self questioning, combining opinions from different perspectives, combining different data collection methods, using NVivo 8.0 to bring more validity to data recording and analysis. Although this thesis adopts a qualitative research strategy, budgetary control’s bottom-up nature drives it to be more suitable than a quantitative one under the specific research situation. And this strategy is more likely to reveal the ‘real’ and ‘rich’ picture to understand the research questions. Hence, it is not reasonable to doubt the quality of this thesis only because it is a qualitative study. Literature review of this thesis can be updated and this study’s data can be further clarified and discussed. As an early study in budgetary systems in Chinese electronic household appliances companies, this thesis has its own immaturity which needs future development.



While this thesis does not aim at proving and generalizing a certain framework, as a pioneering study, it has suggestions for other Chinese companies using budgetary systems in the other industry as well as the same industry, and for study of budgetary system in other countries or regions with emerging or transforming economy or politics. Hence, in this sense, this thesis has a good potential for ‘generalization’ to a certain degree. Different cases’ uniqueness has to be considered in the future studies which will employ this thesis as a reference. For the future, this thesis suggests in-depth study in more cases, large-scale quantitative study based on experiences gained by this thesis, and study into other relevant areas including companies’ strategy, cognitive process of theory building, and management decision making.

This thesis adopts management accounting studies using a contingency theory approach or using an institutional theory approach, combined with China’s context, in order to explain Chinese companies’ budgetary changes. It proposes that there is potential for Burns and Scapens (2000) to develop into an OIS or NIS perspective, to sufficiently interpret China’s budgetary changes. There is also potential for large scale quantitative study, based on specific contingencies which affect Chinese companies, to interpret China’s budgetary changes, and to adjust the contingency theory approach into Chinese context. Based on the findings in this thesis relevance with Western management accounting theories is revealed, as well as these theories’ inadequacies in Chinese context, there is potential for exploring and establishing a new framework for budgetary studies in China. Although there are numerous researches concerning qualitative studies, it is rare to find specific guidance about how exactly qualitative study should be conducted or how qualitative data should be analyzed in management accounting studies. There is step by step guidance of using NVivo in general, but there are few examples of how exactly NVivo shall be used in the research context. This

thesis has experiences in both of these two perspectives. There is a potential to develop a paper suggesting empirical experiences of qualitative research using Nvivo as a data recording and analysis tool. As Chinese governmental sectors at different levels are experiencing budgetary reform, future research can also be conducted based on experiences gained from this thesis. The researcher is also keen to conduct management accounting research in other industries or in other parts of the world, to enrich know-how and experiences which may differ yet still overlap with this study's experiences.

This thesis suggests Chinese practitioners to learn to recognize the importance of using management accounting information. This change together with communication, top management's enforcement, a more profit-conscious style of budgetary supervision, real budgetary participation of junior employees and junior level managers, are beneficial factors which can improve Chinese companies' budgetary practices.

This thesis suggests future researchers to especially pay attention to China's macro infrastructures. Even though budgetary changes belong to the area of management accounting, China's financial accounting practices, China's tax system, and China's political officers' benchmarking systems all influence Chinese companies' management accounting activities including budgetary practices. This thesis suggests China's government to cultivate a healthier atmosphere for private owned Chinese companies to develop not by interfering these companies' operational activities, but by diminishing negative factors in the circumstances. Due to China's sophisticated accounting practices, this thesis even suggests to explore beyond the theories of management accounting change relevant with budgeting, to explain Chinese companies' budgeting. From this perspective, budgetary research in

management accounting can contribute back to other disciplines of knowledge, i.e. politics studies, cultural studies, research methods studies.

To conclude, this research claim that as long as budgetary system proves to be a necessity in substantially improving Chinese companies' inner management and control, Chinese companies will tend to gradually learn to use it properly for their self development and survival. This is a slow and complicated process, but this is the direction of the future.

## **7.5 The Contributions Made by This Thesis**

### **7.5.1 Practical Significance**

*'Among (Chinese) industrial units of activities, there are 1,375,000 of them belonging to manufacturing industry, which takes up 20.1% of them all.'*

*'Among registered organizational legal entities (in China) classified by ownership styles, there are 1,982,000 private owned companies, which takes up 61% of them all.'*

*'Among formal employees (in China), there are 83,905,000 in the manufacturing industry, which takes up 39.1% of them all.'*

*Data Drawn from PRC's Statistic Bureau*

*On Dec. 6<sup>th</sup>, in the Year of 2005<sup>1</sup>*

While such a large number of Chinese private owned companies share the common concerns of financial difficulty, external regulating pressure for ‘normalization’ of behaviour, cost pressure caused by external environment and self development requirements, how many management accounting supports then can they have from Chinese educational institutions?

*While it is hard to tell the exact number of Chinese universities (including colleges), it is estimated that there are 1500 in total. However, it is hard to find independently designed management accounting subject (at undergraduate, postgraduate and doctoral levels), even in the best Chinese universities. Among universities which provide study in this subject, management accounting is normally designed as a course within a programme only. Also, very limited number of students they train. For example, Management School of Peking University recruits one master-doctoral student for the year of 2009, management accounting is only an optional course, not an independent area. Fu Dan University (ranking at No. 6 among Chinese Universities) accepts 3 doctoral students in accounting for the year of 2009. Nanjing University and Ren Min University accepts doctoral students in management accounting for the year of 2009.*

While this educational support is far from enough for Chinese manufacturing industry, which is generally required to strengthen inner management for expanding organizations with less

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<sup>1</sup> Figures shown above belonged to the same period of time with this study’s second round of data collection. The purpose is for ‘relevance’ to this data’s specific background at that point of time. More recent data was also shown in other parts of this thesis.

cost of the present, within Western (and Chinese) management accounting literature, there is no in-depth study towards the area of Chinese companies' budgetary system. The relevant review sections in this thesis indicate that there are studies done about Chinese companies' management accounting systems, but studies of budgetary control specifically are hard to find. Even their mention of budgeting provides rather general insights instead of rich and in-depth analysis.

Hence, this study contributes as an in-depth work towards Chinese companies' budgetary practices, which is closely concerned with Chinese companies' reality, urgently needed in management accounting literature, and clearly has practical significance for now and for the future.

### **7.5.2 Methodological Suggestions**

*'Ethnography is to the cultural or social anthropologist what lab research is to the biologist, what archival research is to the historian, or what survey research is to the sociologist. Often called – not altogether accurately – “participant observation”, ethnography is based on the apparently simple idea that in order to understand what people are up to, it is best to observe them by interacting with them intimately and over an extended period.'* *'The ability to observe unusual, unique events is one of the principal advantages of the ethnographic method (Managhan and Just, 2000).'*

Due to China's different context, it is hard to conduct an insightful study in testing quantitative results in Chinese electronic household appliances companies' budgetary

practices without previous experiences of ‘what’ is really going on out there in terms of Chinese companies’ budgetary systems. The researcher does not mean that quantitative studies cannot be done on Chinese companies’ budgetary system. It is hard to find relevant presumptions without previous empirical experiences. Even if a relevant presumption can be established, it can leave out many interesting and deep insights which can only be gained and explained in a qualitative study. This thesis chooses the methodology considered as the most suitable to the Chinese context, situation of the industry, situation of the present literature, and the ‘bottom-up’ nature of budgeting in theory (in brief, the research topic and reality). After this study’s contribution to realistic insights in understanding Chinese companies’ budgetary systems and China’s context, the researcher suggests future research to carry out large-scale quantitative studies or further qualitative studies in more companies, in the same industry or other Chinese (or emerging economy countries or regions’) industries, for further investigation and more comprehensive understanding in the area of budgetary change.

Hence, this study provides empirical experience in how to approach a research topic in a different context.

By following the longitudinal case study strategy, this study allows the flexibility which budgetary studies need in such a different context. Field work experiences, together with in-depth semi-structured interviews and documental analysis, have enabled this thesis to reveal contextual as well as technical perspectives of Chinese companies’ budgetary practices, explaining what changes have happened or have not happened in these two Chinese companies’ budgetary processes, and how to understand them in a different culture setting. Long-time span allowed by this study’s methodology enables the researcher to observe the

case study companies' changes through time (especially for Company A, the researcher observed how they started budgetary system and how they later developed it). As business is ever changing, this methodology/ research method allows research to observe from the 'changing' perspective. This observation from a 'changing' perspective is able to reveal a 'tendency' through time (in other words, to find some common rule, principles, or 'laws' which underpin the development while not ignoring features of each unique entity). Business world is also a mishmash context. Longitudinal field observations provide the researcher with opportunities to observe unexpected events and people's daily life. For example, the researcher changed the airplane ticket to audit Company A's annual budgetary conference Year 2007, the researcher tracked down Mr. XU (who used to be A1's 6<sup>th</sup> Branch Company's chief accountant, and later became the head of A1 Ltd.'s accounting department). These both have given important resources to this thesis. This thesis uses Nvivo 8.0 to assist the record and analysis of data. However, it is still up to the users to 'think' during coding and analysis process.

In short, this thesis contributes as a description of the change management process, an aspect which is not addressed frequently in common literature. This project's methodology allows this to happen.

### **7.5.3 Theoretical Contributions**

This thesis adds to management accounting theories in change concerning budgeting. This thesis suggests that existing management accounting theories using different approaches are useful for understanding Chinese companies' budgetary practices and other management

accounting changes. To be noted, contextual reasons also have to be considered when understanding Chinese companies' management accounting changes concerning budgeting.

Theoretical contribution to different approaches to management accounting concerning budgeting has been mentioned above in section 7.4. This section focuses on theoretical contribution to budgetary techniques, process, and the use of budgetary information.

### **Budgeting:**

Based on the data analysis in this thesis, the researcher can find that Company A and Company B share themes in common concerning changes relevant with budgeting. Similarities between these two companies reflect a 'rationalizing' homogeneousness of Chinese companies' budgetary systems. Differences between the two companies represent Company B's higher level of development in budgetary system, and thereby would suggest a direction of future management for Company A.

According to the analysis of this thesis, case-study companies' budgetary evaluation style and budgetary participation situation have been identified. While Company A in fact uses a budget conscious style of evaluation, the degree of anxiety of the short term achievement is high, and it prevents managers to calm down to think about what can be further improved concerning overall development in a longer run. As Mr H from Company A said during an interview in the year of 2006, 'we haven't adopted further measures of improvements for budgetary system itself. What we have now is enough. People realize more about the importance of doing it, they accept budgeting, and that is enough.' Although through rules



and ceremonial formalities Company A has improved the ‘atmosphere’ of budgeting, it has not been changed into a real “bottom-up” budgetary participation. Company A’s budget conscious style of evaluation contributes to its failure of a ‘real’ budgeting. Having a budgetary system nearly 10 years longer than Company A, Company B has changed from the budget conscious style to the more profit conscious style of budgeting. Learning from departmental conflicts and conflicting figures, Company B has separated budgetary evaluation and budgetary implementation to a certain degree, and this ‘small’ technical difference brings fundamental differences. According to Company B’s changes through time, it can be seen that as the business world is dynamic, so is the budgetary system. As long as fundamentally the development of budgetary system can help a company to survive and develop, in a long run, companies would have to learn to use it and improve it, which is the ‘fundamental law’ of development of society. However, the development of using and improving the budgetary system is a gradual process. Each company’s stage of budgetary systems is different, and it shall be coherent with each company’s own stage of overall development. Budgetary system can only be developed further together with the development of other perspectives, including employee’s concepts and organization’s habits.

This thesis analyses studied companies’ budgetary participation. Although through years Company A’s managers have changed to accept budgeting due to the establishment of a series of rules and continuous communication, it has not been changed into ‘real’ bottom-up budgetary participation. While the supervising style and the style of communication are influential factors, the hierarchical culture is the deeper reason for this failure in substantial change. While Company B has the better degree of budgetary participation than Company A, this thesis analyzes that its employees’ better education background and quality, its budget evaluation style, as well as corporate culture helps its improvement of budgetary participation.

Concerning the transformation from a 'pseudo' budgetary control system which is in fact up-down, to a real 'bottom-up' budgetary system, this thesis suggests that managers' real concern about using accounting (budgeting) information for management may become an important factor leading Chinese companies to real bottom-up budgetary changes. This factor may potentially 'beat' negative sides of culture, and promote companies development of budgetary system even in a very different context. This thesis advises that management accountants need to be more active to help the managers to use accounting information and budgetary information for managers' decision making. This can motivate a company's transform into a real budgetary control.

Hence, this thesis adds to the literature of budgeting, the role of budgetary information, the role of management accountants, and future suggestions of Chinese companies' budgetary practices. Existing literature serves as the efficient tool to analyze Chinese companies' budgetary issues. Furthermore, although budgetary evaluation and participation literature can illuminate the case-study companies' budgetary practices and help to recognize what is going on in case study companies' budgetary practices, due to the contextual differences, the existing literature is not sufficient to provide the full-fledged explanation of Chinese companies' situation in budgetary evaluation and participation. Therefore, this study enriches budgetary literature on budgetary evaluation and participation in a different context. As the contextual 'thick' case study is considered to be important and necessary in recent management accounting literature, this thesis also serves as a 'case study' of budgeting control.

### **Management Accounting Theories of Change Concerning Budgeting:**

According to the analysis in this thesis (refer to chapter 4) and previous section 7.2 and 7.4, management accounting theories adopting a contingency theory approach overlap with themes of changes discovered in this study: environment, organizational structure, other management accounting and information techniques and systems.<sup>2</sup> Institutional theories and management accounting theories using an institutional theory framework helps this thesis to explain the success and failure of changes in studied companies. It is through the establishment and use of rules and indexes that both companies change the ‘habits’ of ignoring budgeting. Through continuous utilization of the new rules of doing budgeting, both companies have established ‘routines’ of planning budgets. However, because of China’s unique cultural circumstances and the lack of understanding of real ‘budgetary control’, Company A’s existing ‘taken for granted’ concepts conflicts with fundamental concepts of real budgetary control, and this leads to Company A’s failure in transforming itself into a real budgetary participant, and this also led to Company A1’s 6<sup>th</sup> Branch Companies’ failure of implementing budgeting. Company B’s development makes an ‘institutionalize’ budgetary participant become ‘take for granted’ concepts of the company, which leads to its ‘reasonable’ budgetary objective setting, and smooth implementation based on a better degree of bottom-up participation.

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<sup>2</sup> Flamholtz (1983) examined ‘the relationship between accounting, budgeting and control in its actual organizational context from a theoretical as well as an empirical perspective. It argues that the process of exercising control in an organization is significantly more complex than conventional managerial accounting theory suggests. It also argues that budgeting and even an accounting system cannot be viewed as a control system per se; rather, they must be seen as a part of a carefully designed total system of organizational control. If the linkages between budgeting or an accounting measurement system and the other essential prerequisites of a control system are not adequate, then the system may not fulfil its intended functions’.

As it has been discussed in 7.2, this thesis examined the application of different management accounting theories of change in the context of Chinese electronic household appliances' budgeting. This thesis proved the applicability of certain Western theories of change, teasing out these Western theories' limitations. More importantly, this thesis contributes to the existing literature something 'new' about China. It adds to the literature what we did not know about China's context of budgeting before. It adds to the literature what are Chinese companies' budgetary concepts and behaviours at this stage. It adds to the literature of budgetary change by providing Chinese contextual reasons. By focusing on the transition process of China and by collecting diverse data in a longitudinal study over a long period, this thesis contributes to the literature an analysis of other management accounting and managing systems introduced during the span of observation. This thesis contributes to the literature a description of the change management process, an aspect which is not addressed frequently. This thesis suggested the limitations of contingency theory approach and institutional theory approach in management accounting to explain Chinese companies' budgetary practices. This thesis provides an empirical example of using these theories in China and indicates potential development of these theories' application in Chinese companies.

### **Other Theories in Understanding Budgetary Changes:**

This thesis proves the possibility of using multiple management accounting theories of change to explain Chinese companies' budgetary changes. This thesis explores China's intriguing historical, social-economical, cultural and religious context which affects Chinese companies' budgetary changes at a deeper level. This thesis proves the possibility of and calls for the use of a broader area of theories to understand budgetary changes in China, especially

due to China's different contextual factors. In fact the researcher would further employ this strategy for potential future studies based on this thesis.

For example, case analysis in previous chapter of this thesis reveals the differences between Chinese budgetary practitioners' words and behaviours. Existing Western management accounting theories in change relevant with budgeting can reveal that these 'differences' imply 'pseudo' budgetary control. A perspective data analysis chapters of this thesis have not discussed yet includes that, beyond the boundary of Western management accounting theories in change relevant with budgeting, Marx famously said that any time we are exchanging commodities:

[...] do this without being aware of this. (quoted by Mclellan 2000, pp. 475)

Or, in the original German:

Sie wissen das nicht, aber sie tun es.

Zizek (1989, pp. 28) has interpreted this quote as the most elementary definition of ideology: A belief which, although it can not be explicitly formulated by the subject, is nevertheless enshrined in their action. A person says they believe one thing (for example, they believe in bottom-up budgeting in this study's context) and yet they act in complete contradiction to this belief (for example, they practice up-down budgeting in this study's context). Based on Marx's definition about 'ideology', we shall evaluate studied Chinese companies' budgetary results by what they really practice in reality, instead of what they claim.

In brief, to sufficiently explain case study companies' budgeting, this thesis can also contribute in applying other theories beyond the boundaries of management accounting to explain budgetary changes.

Last but not least, as a whole, this thesis deepens the understanding of management accounting change in China. And the tension which exists when Chinese companies introduce Western management accounting practices.

## ***Appendix I A Note: Three Definitions***

Although chapter three does not attempt to do a thorough philosophical discussion, it helps to explain arguments more clearly by quoting the definitions of ‘ontology’, ‘ideology’ and ‘epistemology’, from the Oxford English Dictionary (OED, <http://dictionary.oed.com.ezphost.dur.ac.uk/entrance.dtl>) here.

### Ontology:

1. A. *Philos.* The science or study of being; that branch of metaphysics concerned with the nature or essence of being or existence.  
B. As a count noun: a theory or conception relating to the nature of being. Also in extended use.
2. *Logic.* Chiefly with reference to the work of Stanislaw Leśniewski (1886-1939): a system similar in scope to modern predicate logic, which attempts to interpret quantifiers without assuming that anything exists beyond written expressions.

([http://dictionary.oed.com/cgi/entry/00332149?single=1&query\\_type=word&queryword=ontology&first=1&max\\_to\\_show=10](http://dictionary.oed.com/cgi/entry/00332149?single=1&query_type=word&queryword=ontology&first=1&max_to_show=10))

### Ideology:

1. A. The science of ideas; that department of philosophy or psychology which deals with the origin and nature of ideas.  
B. *spec.* Applied to the system of the French philosopher Condillac, according to which all ideas are derived from sensations.

C. the study of the way in which ideas is expressed in language.

2. Ideal or abstract speculation; in a depreciatory sense, unpractical or visionary theorizing or speculation.
3. = [IDEALISM](http://dictionary.oed.com/cgi/entry/50111171?single=1&query_type=word&queryword=idealism&first=1&max_to_show=10) 1. (*Philos.* Any system of thought or philosophy in which the object of external perception is held to consist, either in itself, or as perceived, of ideas [http://dictionary.oed.com/cgi/entry/50111171?single=1&query\\_type=word&queryword=idealism&first=1&max\\_to\\_show=10](http://dictionary.oed.com/cgi/entry/50111171?single=1&query_type=word&queryword=idealism&first=1&max_to_show=10))
4. A systematic scheme of ideas, usu. relating to politics or society, or to the conduct of a class or group, and regarded as justifying actions, esp. one that is held implicitly or adopted as a whole and maintained regardless of the course of events. Also *Comb.*

([http://dictionary.oed.com/cgi/entry/50111233?single=1&query\\_type=word&queryword=ideology&first=1&max\\_to\\_show=10](http://dictionary.oed.com/cgi/entry/50111233?single=1&query_type=word&queryword=ideology&first=1&max_to_show=10))

### Epistemology:

The theory or science of the method or grounds of knowledge.

**1856** [FERRIER](#) *Inst. Metaph.* 48 This section of the science is properly termed the Epistemology...It answers the general question, 'What is Knowing and the Known?' or more shortly, 'What is Knowledge?' **1883** *Athenæum* 20 Oct. 492/3 He divides his work into four sections, dealing with epistemology, ontology, anthropology, and ethics.



[http://dictionary.oed.com/cgi/entry/50077018?single=1&query\\_type=word&queryword=epistemology&first=1&max\\_to\\_show=10](http://dictionary.oed.com/cgi/entry/50077018?single=1&query_type=word&queryword=epistemology&first=1&max_to_show=10)

***Appendix II Originally Planned Questionnaire Proposal (Pilot Study)***

**Questionnaire**

**A Functional and Behavioural Study of the  
Influences of the Budgetary Control System  
In A Selection of Large Chinese Companies**

Name: Fu Xiao

Supervisor: Professor Robert Dixon  
Mrs. Anne Woodhead

*November, 2004*

Name: Fu Xiao  
Email: lidawndog@hotmail.com  
Phone: +86-(0)757-2226-1788  
November, 2004

Dear Sir or Madam,

**Subject: A PhD Research on Budgetary Influences**

Thanks for your time reading this letter. I'm a PhD student from Business School, University of Durham (U.K.). This letter is now being sent to you to see whether your company likes to take part into parts of our research project of budgetary effectiveness.

The main objective of our research is trying to find out the relationships between budgetary systems and organizational effectiveness. We will test the budgetary variables used to evaluate the organizational effectiveness, and the contextual contingents may influence the organizational effectiveness.

If your company could kindly enable the data collection, the potential benefits of your company could include:

- (1) Get a detailed investigation on your company's budgetary control system for free. The results may indicate not only the budgetary figures we can see, but also some deeper insights into the degree of effectiveness, situation of human perspectives, etc.
- (2) Suggestions of potential adjustments or improvements in budgetary system may also be implied.

Above all of these, total confidentiality can be guaranteed for your company and the participants.

In order to give you a clearer idea about the research, a copy of the questionnaire is enclosed. It takes less than 30 minutes to finish. We will be very appreciated if this questionnaire could be done. And if an extra meeting could be arranged about the results of the questionnaires or even field work could be permitted, it will be extremely helpful for our research. If you need

any other information from me or you'd like to contact me prior to the study, please contact me without hesitation.

Thank you very much in advance for your time and interest. Whether or not your company will cooperate with us, we sincerely thanks for your understanding and supports.

Yours sincerely,

Fu Xiao

## **Section I: Introduction**

At first, we would like to thank you for your cooperation in this **research project of budgetary control system at University of Durham (England)**. The purpose of this research is to find out the relationships between some budgetary-related contingents and the effectiveness of organizations.

Instructions will be given about how to answer the questions. We can fully understand that some of the questions may be repetitive, please make an effort to answer all of them.

Your answers to the questions will be used for our data analysis as personal perceptions of the budgetary system in your company. Total confidentiality can be guaranteed for all your reactions. If you have any other inquiries, you're more than welcome to contact me any time.

Please follow the instructions and complete the questions of each part. Thank you.

## **Section II: Personal Details and Background Questions**

### **Panel A- Personal Details**

Before we start to do the questionnaires, please spare some time to provide us some personal details. These are needed just for statistical reasons. Thank you.

Name:

Gender:

Company's Name:

Position in the Company:

Number of Years in the position:

### **Panel B – Company Background**

Please tick one answer, which you think to be the most proper one, for every question. Thank you.

1. Which of the following kinds of ownership can you describe your company?

- A. State-Owned Company;      B. Foreign Invested Company;  
C. Private-Owned Company;      D. China and Foreign Co-invested Company

2. Which of the following business activities can you describe its in your company?

- A. Producing products with own brands;  
B. ODE or OME Production;  
C. All of the above.

3. Please describe the sales of your company to each kind of customers:

- A. Own country retailers;
- B. Own country wholesalers;
- C. Foreign retailers;
- D. Foreign wholesalers.

### **Section III: Contextual Contingents Categories**

In this section, you are required to express your opinions about the contextual contingents that may **influence** the effectiveness of your company. This kind of effectiveness not only includes departmental effectiveness, inter-departmental effectiveness, but also the effectiveness of the organization as a whole.

Please read carefully and answer following questions by **circling** on the corresponding scale number, which represents best of your opinions. Circle one choice only for each question and please try not to omit any of the questions. Thank you.

#### **A. Goals/ Objectives**

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

1. Do you think the goals setting  
of your Company influence  
budgetary effectiveness?

**1    2    3    4    5**

2. Do you think your company

**Strongly Disagree I Don't Agree Strongly**

**Disagree Know Agree**

should set goals?                    **1   2   3   4   5**

3. Do you think it is important for

your company to set goals?            **1   2   3   4   5**

4. Do you think setting goals more

frequently can do well to

budgetary effectiveness?            **1   2   3   4   5**

5. Do you think the frequency of

setting goals in your company is

too high?                            **1   2   3   4   5**

6. Do you think the frequency of

Setting goals in your company is

Too low?                            **1   2   3   4   5**

7. Do you think putting goals into

Practice is beneficial to

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

Budgetary effectiveness?      **1    2    3    4    5**

8. Do you think the degree to  
which putting goals into  
practice is high enough in  
your company?      **1    2    3    4    5**

9. Do you feel that the goals  
setting is tight in your  
company?      **1    2    3    4    5**

10. Are you satisfied with the  
goal setting in your company?      **1    2    3    4    5**

## **B. Organizational Structure**

11. Do you think the organization  
structure influence organizational  
effectiveness?      **1    2    3    4    5**

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

12. Do you think your company is a      **1    2    3    4    5**



centralized organization with  
strong autonomy?

13. Do you think your company is a  
decentralized organization with  
decentralized decision-making  
authority?            **1    2    3    4    5**

14. Do you think your company is  
structured?            **1    2    3    4    5**

15. Do you think your company's  
structure is good for budgetary  
effectiveness?            **1    2    3    4    5**

### **C. Accounting Information System**

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

16. Do you have accounting information  
system (AIS) in your company?    **1    2    3    4    5**

17. Do you think AIS is important for

budgetary effectiveness?      **1    2    3    4    5**

18. Do you think you can load enough  
information to ensure organizational  
effectiveness in your company?      **1    2    3    4    5**

19. Do you think the reports to AIS in  
your company is frequent enough?      **1    2    3    4    5**

20. Do you think the information within  
your company's AIS is up-to-date?      **1    2    3    4    5**

21. Do you think the reporting to your  
company's AIS system is centralized?      **1    2    3    4    5**

**Strongly Disagree   I Don't Agree   Strongly**

**Agree      Know      Agree**

22. Do you think method of reporting  
(e.g. statements, raw data, charts,  
pictures) influence the budgetary  
effectiveness?      **1    2    3    4    5**

23. Do you think the valuation methods  
of the accounting information  
influence the budgetary      **1    2    3    4    5**

effectiveness?

24. Do you think cost allocation methods  
of the accounting information  
influence the budgetary  
effectiveness?            **1    2    3    4    5**

25. Do you think measurements of events  
(e.g. financial vs. non-financial data and  
external vs. internal data) influence the  
budgetary effectiveness?            **1    2    3    4    5**

**Strongly Disagree I Don't Agree Strongly**

**Disagree    Know    Agree**

26. Are you satisfied with your company's  
Accounting Information System?   **1    2    3    4    5**

**D. Human Resource Factor**

27. Do you think human resource factor  
is important in budgetary effectiveness? **1    2    3    4    5**

28. Do you think interpersonal relationships  
of your company's members become

worse because of doing budgets?    **1    2    3    4    5**

29. Do you think there become more  
departmental conflicts because of  
budgeting system?                    **1    2    3    4    5**

30. Do you feel that you are more  
greatly controlled by the company  
because of budgetary system?    **1    2    3    4    5**

**Strongly Disagree I Don't Agree Strongly**  
**Disagree            Know            Agree**

31. Do you think it is good to be more  
tightly controlled by company?    **1    2    3    4    5**

32. Do you think great budgetary control  
is beneficial to organizational  
effectiveness?                    **1    2    3    4    5**

33. Do you think your company's political  
games influence budgetary  
effectiveness?                    **1    2    3    4    5**

34. Are you satisfied with the human  
resource factors within your

company?                    1    2    3    4    5

**E. Culture Perspectives**

35. Do you think Chinese culture can  
influence the budgetary control

**Strongly Disagree I Don't Agree Strongly**  
**Disagree      Know      Agree**

In your company?            1    2    3    4    5

36. Do you think Chinese culture do  
good to the budgetary effectiveness

in your company?            1    2    3    4    5

37. Do you think the habit of obeying  
orders from the upper levels is

a feature in your company's    1    2    3    4    5  
budgetary system?

38. Do your think Chinese culture's  
emphasis on interpersonal harmony

can deduce some obstacles in  
budgeting?                    1    2    3    4    5

39. Do you think people communicate well concerning about the budgetary control system in your company?      **1    2    3    4    5**

**Strongly Disagree I Don't Agree Strongly**

**Disagree    Know    Agree**

40. Do you think traditional Chinese way of communication do bad influences on budgetary effectiveness?      **1    2    3    4    5**

### **Sections IV: Budgetary Variables Categories**

In this section, you are required to express your opinions about the budgetary variables that may be used to **evaluate** budgetary effectiveness. Please pay attention on their uses of “evaluating” instead of “influencing”.

Please read carefully and answer the following questions by **circling** on the corresponding scale number that best represents your opinions. Please do not omit any of the questions.

Thank you.

#### **A. Goals Completion**

**Strongly Disagree I Don't Agree Strongly**

**Disagree    Know    Agree**

41. Do you think goals completion is an evaluator for the degree of budgetary effectiveness?      1    2    3    4    5

42. Do your superiors consider financial targets' completion as an important

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

evaluation on your job?      1    2    3    4    5

43. Do your company use goal completion in rewards system?      1    2    3    4    5

44. Do you think goal completion should be important in rewards system?      1    2    3    4    5

45. Are you satisfied with the goals completion in your company?      1    2    3    4    5

**B. Communication & Participation**

46. Do you think communication & participation could reflect the level

of budgetary effectiveness?      1   2   3   4   5

47. Do you think you can communicate

well in your company's budgetary

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

process?                      1   2   3   4   5

48. Do you think you can participate

well in your company's budgetary

process?                      1   2   3   4   5

49. Do you think that better

communication and participation

do good to budgetary effectiveness?   1   2   3   4   5

50. Are you satisfied with the

communication and participation

within your company's budgetary

system?                      1   2   3   4   5

## **C. Accounting Performance Measures**

51. Do you think accounting performance



measures can indicate the level of

**Strongly Disagree I Don't Agree Strongly**

**Disagree Know Agree**

budgetary effectiveness?      **1 2 3 4 5**

52. Do you think quantitative figures

rather than qualitative ones are more

important in measuring accounting

performance of your company?      **1 2 3 4 5**

53. Does your company pay more

attention to quantitative figures

rather than qualitative aspects

to measure accounting

performance?      **1 2 3 4 5**

53. Do you think size (number of

employees) can influence

budgetary emphasis?      **1 2 3 4 5**

54. Do you think the decentralization/

centralization can influence

**Strongly Disagree I Don't Agree Strongly**

**Disagree Know Agree**

budgetary emphasis?            1    2    3    4    5

55. Do you think budget emphasis can

influence budgetary effectiveness?   1    2    3    4    5

56. Do you feel great budget pressure?   1    2    3    4    5

57. Do you think proper degree of

budget pressure can have good

influence budgetary effectiveness?   1    2    3    4    5

58. Do you think budget pressure in

your company is proper?            1    2    3    4    5

59. Do your company focuses on

internal data rather than outside

data for accounting performance

measurement?                    1    2    3    4    5

**Strongly Disagree   I Don't Agree   Strongly**

**Disagree            Know            Agree**

60. Do you feel satisfied with your

company's accounting

performance measure?      1    2    3    4    5

## **D. Psychological Satisfaction**

61. Do you think psychological satisfaction can indicate the level of budgetary effectiveness?    1    2    3    4    5

62. Do you think psychological satisfaction can motivate employees in budgetary process?      1    2    3    4    5

63. Do you think your company pay attention to employee's psychological satisfaction?    1    2    3    4    5

**Strongly Disagree   I Don't Agree   Strongly**

**Disagree   Know   Agree**

64. Do you think personal psychological satisfaction just concerns about financial achievements?    1    2    3    4    5

65. Are you satisfied with your  
company's budgetary control?    1    2    3    4    5

## **Section V. Categories of Variables that Contingents**

### **Dependent Upon**

In this section, you will be required to answer the questions to express your opinions about the variables may influence the contextual contingents. For the contextual contingents (including goals/ objectives, organizational structure, AIS, HR, culture), please refer to the Section I of this questionnaire.

Please read carefully and answer the following questions by **circling** on the corresponding scale number that best presents your opinions. Please try to answer all the questions. Thank you.

### **A. Technology**

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

66. Do you think technology influences  
the goals in your company?    1    2    3    4    5

67. Do you think the more routine-like

the technology is, the more fixed the

**Strongly Disagree I Don't Agree Strongly**

**Disagree Know Agree**

goals could be?                    **1 2 3 4 5**

68. Do you think the more complicated

the technology is, the more cautious

the goals should be?                    **1 2 3 4 5**

69. Do you think technology influences

your company's structure?                    **1 2 3 4 5**

70. Do you think that with the developing

of technology, company's structure

become more and more decentra-

lized?                    **1 2 3 4 5**

71. Do you think that technology develop-

ment has more influences to the

company when the company is

more structured?                    **1 2 3 4 5**

**Strongly Disagree I Don't Agree Strongly**

**Disagree Know Agree**

72. Do you think technology influences  
the AIS design in your company?    1    2    3    4    5

73. Do you think the more developed  
the technology is, the more developed  
AIS system could be?            1    2    3    4    5

74. Do you think the feature of the  
technology may influence the  
feature of AIS system?            1    2    3    4    5

75. Do you think technology  
influences human resource  
factors of your company?        1    2    3    4    5

76. Do you think technology  
influences the culture?            1    2    3    4    5

**B. Environmental Turbulence (i.e. Predictability)**

**Strongly Disagree    I Don't Agree    Strongly**

**Disagree            Know            Agree**

77. Do you think environmental  
turbulence influence the goal

settings of the company?      1   2   3   4   5

78. Do you think the more stable  
the environment is, the more  
possible to turn the goals into  
reality?                      1   2   3   4   5

79. Do you think the environmental  
turbulence influence the structure  
of organizations?              1   2   3   4   5

80. Do you think the more stable  
the environment is, the more  
decentralized structure could be?   1   2   3   4   5

81. Do you think environmental  
turbulence can influence AIS?   1   2   3   4   5

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

82. Do you think the more stable the  
environment is, the more decen-  
tralized the AIS could be?      1   2   3   4   5

## C. Unit Interdependence

83. Do you think unit interdependence

can influence the goals?      1   2   3   4   5

84. Do you think unit interdependence

can influence the organizational  
structure?                      1   2   3   4   5

85. Do you think unit interdependence

can influence AIS design?      1   2   3   4   5

86. Do you think unit interdependence

has positive relationships with human  
relationships?                      1   2   3   4   5

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

87. Do you think unit interdependence

influences the culture?      1   2   3   4   5

## D. Autonomy

88. Do you think the autonomy style

influences goals of your company? 1   2   3   4   5



89. Do you think the degree of centralization of a company has positive relationship with goals completion?            **1    2    3    4    5**

90. Do you think the decentralization or concentration of authority influences organization's structure?            **1    2    3    4    5**

91. Do you think autonomy influences human resource factors?            **1    2    3    4    5**

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

92. Do you think autonomy influences the culture?            **1    2    3    4    5**

**E. Organizational Strategies**

93. Do you think organizational strategies influence the goals?            **1    2    3    4    5**

94. Do you think organizational strategies influence organizational structure? **1    2    3    4    5**

94. Do you think organizational strategies  
influences AIS design?      **1   2   3   4   5**

95. Do you think organizational strategies  
influences HR factors?      **1   2   3   4   5**

96. Do you think organizational strategies  
influences the culture?      **1   2   3   4   5**

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

## **F. Management Style**

97. Do you think management style  
influences goals?      **1   2   3   4   5**

98. Do you think management style  
influences organizational structure? **1   2   3   4   5**

99. Do you think management style  
influences AIS design?      **1   2   3   4   5**

100. Do you think management style  
influences HR. factors?      **1   2   3   4   5**

101. Do you think management style

influences the culture?    **1**   **2**   **3**   **4**   **5**

### ***G. Reward System***

**Strongly Disagree I Don't Agree Strongly**

**Disagree    Know    Agree**

102. Do you think reward system

influences the goals?    **1**   **2**   **3**   **4**   **5**

103. Do you think reward system

influences organizational  
structure?            **1**   **2**   **3**   **4**   **5**

104. Do you think reward system

influences AIS design?    **1**   **2**   **3**   **4**   **5**

105. Do you think reward system

influences H.R. factors?    **1**   **2**   **3**   **4**   **5**

106. Do you think reward system

influences the culture?    **1**   **2**   **3**   **4**   **5**

## Section VI. Simple Relationships Between Budgetary Variables and Contextual Contingents

Questions in this section require you to express your opinions about relationships between budgetary variables and contextual contingents. Please see Section I for the contextual contingents and Section II for the budgetary variables.

Please read carefully and answer every question **based on the situation of your company** by **circling** on the corresponding scale number that represents your opinions. Don't omit any of the questions. Thank you.

### A. Goals Completion

**Strongly Disagree I Don't**  
**Agree Strongly**

**Disagree      Know      Agree**

107. Do you think goals/objectives  
setting can influence goals  
completion in your company?      **1    2    3    4    5**

108. Do you think organizational  
structure can influence  
goals completion in your

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

company?                    1    2    3    4    5

109. Do you think AIS design can  
influence goals completion

in your company?            1    2    3    4    5

110. Do you think HR factors can  
influence goals completion in

your company?            1    2    3    4    5

111. Do you think culture can  
influence goals completion in

your company?            1    2    3    4    5

## **B. Communication & Participation**

112. Do you think goals setting can  
influence communication &

participation in your company?    1    2    3    4    5

**Strongly Disagree   I Don't Agree   Strongly**

**Disagree   Know   Agree**

113. Do you think organizational  
structure influences communication

and participation in your company? 1 2 3 4 5

114. Do you think AIS design influences

communication & participation

in your company? 1 2 3 4 5

115. Do you think HR factors can

influence communication &

participation in your company? 1 2 3 4 5

116. Do you think culture perspectives

can influence communication &

participation in your company? 1 2 3 4 5

### C. Accounting Performance Measures

117. Do you think goals/objectives setting

**Strongly Disagree I Don't Agree Strongly**

**Disagree Know Agree**

can influence goals accounting

performance measure in your company? 1 2 3 4 5

118. Do you think organizational structure

can influence accounting performance

measures in your company?      1   2   3   4   5

119. Do you think AIS design can influence  
accounting performance measures in  
your company?                    1   2   3   4   5

120. Do you think HR factors can influence  
accounting performance measures in  
your company?                    1   2   3   4   5

121. Do you think culture can influence  
accounting performance measures  
in your company?                1   2   3   4   5

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

**E. Psychological Satisfaction**

122. Do you think goals/objectives setting  
can influence psychological  
satisfaction in your company?    1   2   3   4   5

123. Do you think organizational  
structure can influence

psychological satisfaction in  
your company?            1   2   3   4   5

124. Do you think AIS design can  
influence psychological  
satisfaction in your company?   1   2   3   4   5

125. Do you think HR factors  
can influence psychological  
satisfaction?            1   2   3   4   5

**Strongly Disagree I Don't Agree Strongly**

**Disagree      Know      Agree**

126. Do you think culture can  
influence psychological satisfaction  
in your company?            1   2   3   4   5



## **Appendix III Application Letter for Case Study**

### **Chinese Version**

尊敬的先生/女士:

您好!

本人符晓,现为英国杜伦大学(University of Durham)商学院二年级博士生.并参与学校关于"预算控制对大型企业有效性影响"的研究项目.

贵公司/集团多年来的发展与成就引人瞩目,管理与控制水平在我国企业中也属前列.这引起了我浓厚的学习兴趣,想对有关贵公司预算历史的源起与发展,预算的制订程序,预算的实施过程,及其他与预算相关的方面如组织结构,环境应变策略等等进行更深入的了解,并尝试用博弈论为理论框架进行定量与定性分析.

如果能够有幸被允许对贵公司预算方面的情况进行了解与学习,本人将倍感荣幸.同时,将严格遵守科研道德.

真诚希望关于这次珍贵学习机会的请求能够被考虑并接受,也非常愿意向贵公司提供本校此项目对贵公司研究后的综合分析结果.非常感谢您的帮助!

此致,  
敬礼!

符晓  
2005.3.

**English Version:**

To whom it may concern,

I am Xiao Fu, a second year PhD student at Durham University, undertaking a research project about ‘the influences of budgetary systems towards large Chinese companies’.

Your Group Company’s development in recent decades is outstanding. Your company’s level of management and control are relevantly advanced comparing with other Chinese companies in the same industry. These attract my research interests. I would like to learn about the initiation and development of your company’s budgetary system, the procedure of setting budgetary objectives, the process of budgetary practices, and other perspectives of your organization concerning budgeting, i.e. organizational structure, strategic reactions towards environmental changes. I would try to explore in using Western management accounting theories in change to explain this gathered data.

I appreciate if I can be honoured to conduct research concerning budgeting in your company.

I will obey research ethics.

I sincerely hope that this request can be considered and accepted. I am willing to give feedbacks about the results of data analysis concerning your company. Many thanks for your help.

Best wishes.

Yours sincerely,

Xiao Fu



- A. 预算制订情况                      B. 预算实施情况  
B. 企业技术水平或者管理水平    D. 外部环境改变(如销售等) E. 人员关系和沟通情况

9. 您认为预算目标与您所在部门/公司战略的关系如何?

- A. 无关    B. 互相矛盾    C. 并存, 不矛盾, 也不太互相影响    D. 比较相关    E. 一致

10. 预算实施后, 如与计划不符, 情况如何?

- A. 不知道或不清楚处理办法                      B. 如有不符, 没有什么影响  
C. 注意分析, 调整产销管理, 但与奖惩关系不大    D. 详细分析, 奖惩分明

11. 如对预算的达成与否, 有实施奖惩, 奖惩方式如何? (可多选)

- A. 现金方式    B. 股权和红利    C. 晋级鼓励或降级处理                      D. 表扬或批评

12. 预算过程中, 沟通情况如何?

- A. 不知道    B. 不好    C. 一般    D. 较好    E. 很好

13. 造成这种沟通情况的原因, 您认为是什么? (可多选, 并依照重要性由大到小标序)

- A. 个人沟通能力与性格                      B. 上级的领导方式    C. 预算指标达成的难易程度  
D. 分/子公司间或部门间的利益关系    E. 公司/部门/团队的文化或习惯    F. 纯粹观念差异

14. 对于预算, 您有无接受过相关培训?

- A. 没有听说过                      B. 听说过, 但本人没有参加过  
C. 开过会, 学习过                      D. 经常学习实践, 不断进步

15. 您认为预算的制订和实施对个人/部门/分(子)公司/总公司的影响如何?

- A. 无影响    B. 有不良影响    C. 一般    D. 较好    E. 很好

16. 您认为还应该继续实施预算吗?

- A. 无所谓    B. 不应该    C. 可以实行  
D. 很重要, 要坚持深入实施, 并与其他管理手段结合起来

17. 关于预算或者其他任何相关问题, 您如有任何的想法, 疑问或者建议, 欢迎写在如下空白处。

**谢谢!**

问卷设计单位: 英国杜伦大学商学院

问卷设计人: 符晓

联络方法: +86 (0) 757 2226 1788

[lidawndog@hotmail.com](mailto:lidawndog@hotmail.com)

问卷发放时间: 2007年1月

**English Version:**

**Questionnaire Year of 2006 - 2007**

To who it may concern, this is a questionnaire for academic research only. Your personal information is not to be revealed to your employing company for managerial reasons, and is protected by confidentiality agreements. For each question, there is no 'correct' or 'incorrect' answer and there is no 'standard' answer. You only need to answer according to actual situation of your department or company. Thank you very much for cooperation. Please first fill in your personal information underneath before answering further questions.

**Name:**

**Position:**

**Gender:**

**Date of Birth:**

**Highest Degree Achieved (Including Subject):**

**Date of Filling in Questionnaire:**

**Number of Years of Working after Graduation:**

**Starting Date of Working in this Company:**

**Any Experience abroad, or Any Working Experience in Foreign Companies? If 'Yes', please notify detailed information here:**

Please tick the most appropriate answer for each question underneath. For questions with multiple answers (notified), please tick all the appropriate answers and mark them in order (i.e.: 1, 2, 3) according to degrees of importance. Thank you!

**1. Have you heard about 'budgeting'?** A. Yes

B. No

**2. What do you think about the importance of ‘budgeting’? (From ‘A’ to ‘E’, the degree of importance gradually increases. The same applies to following questions in similar situation.)**

- A. Not important                      B. A bit important                      C. Ordinary Important  
D. Quite Important                      E. Very Important

**3. The company’s operation shall be**

- A. Budget oriented                      B. Cost oriented                      C. Production oriented  
D. Sales oriented                      E. Combining different aspects mentioned above

**4. How do you describe the degree of your own participation in budget setting?**

- A. Never.      B. Indirectly participated      C. Directly participate in a small part  
D. Participate in major part                      E. Participate in the overall procedure

**5. After making budgets, how do you describe the degree of your own participation in realizing budgets?**

- A. Never heard about it      B. Heard about it but never participated in  
C. Indirectly participated      D. Directly participate a little      E. Largely participate

**6. How does your department or company set budgetary objectives?**

- A. No budgets or no idea about how budgetary objectives are made  
B. Basically the same with last year’s quota  
C. According to quota distributed by senior management  
D. According to historical budgets and recent situation, mainly made by department or company itself.

E. None of above. Please specify in details here:

**7. What do you think about the degree of difficulty in implementing budgetary objectives in your department/ company?**

- A. No idea                      B. Impossible or too hard                      C. Difficult but possible

D. Ordinarily difficult to achieve

E. Easy to achieve.

**8. What are the reasons for this degree of difficulty (multiple choices allowed, please mark your answers according to their degrees of importance, in a descending order)?**

A. Budgetary objectives

B. Budgetary realization

C. Company's own technology or management level and ability

D. Changes in external environment (i.e., sales)

E. Human relationships and communication

**9. What are your opinions about the relationships between budgetary objectives and strategy of your department/ company?**

A. Irrelevant

B. Conflicting

C. Coexist, non-conflicting, non influential to each other

D. Comparatively relevant

E. Congruent

**10. What happens if budgetary objectives can't be reached?**

A. No idea or not certain about detailed measurements

B. It won't influence anything if budgetary objectives are not realised

C. The department/ company pays attention to analyze reasons behind, to adjust production and sales management, but it doesn't relate much to performance measurement

D. The department/ company analyzes thoroughly with clarified performance evaluation measurements

**11. If your department/ company relates performance evaluation with the implementation of budgetary objectives, what about the means of measurements (multiple choices allowed)?**

A. Cash

B. Stock shares or bonus (extra dividends)

C. Promotion or demotion

D. Honour (oral encouragement) or criticizing

**12. What about communication during the budgetary process?**

- A. No idea      B. Bad      C. Ordinary      D. Good      E. Very good

**13. What do you think are the reasons for this status of communication (multiple choices allowed)?**

- A. Personal communicating skills and characteristics  
B. Senior managers' supervising style  
C. Degree of difficulty in accomplishing budgetary objectives  
D. Profit relationships among subsidiaries, branch companies, or departments  
E. Company/ department/ team's culture or habits  
F. Merely conceptual differences

**14. Have you accepted any training about budgeting?**

- A. Never heard about it      B. Heard about it, but never participated  
C. Have participated in conferences and learned about budgeting  
D. Frequently learn and practice it, and continuously develop

**15. What are your opinions about the influences of budgetary setting and budgetary implementation towards individuals/ department/ subsidiary or branch companies/ or group company?**

- A. No influence    B. Negative influence    C. Ordinary    D. Good    E. Very good

**16. Do you think that budgeting shall be carried on in the future or not?**

- A. It doesn't matter 'yes' or 'no'      B. No      C. Yes, it shall be applied  
D. Very important, it needs to be consistently carried on into a further degree, combining with other managerial tools



**17. Concerning budgeting or any other relevant issues, if you have any other ideas, questions or suggestions, please write them down underneath. Thank you!**

This questionnaire is designed by: Miss Xiao, Fu

Durham Business School, Durham University

Ways of contact: +86 (0)757 2226 1788

+44 (0)796 9481 160

Fu.Xiao@dunelm.org.uk

P.S.: This questionnaire is used in every interview in this study's second round of data collection, since 1<sup>st</sup> Jan. 2007. Field observations (project notes) are also analysed based on this questionnaire. During field observations, questions are asked if any confusion concerning topics recorded in this questionnaire occurs. Interviews and project notes conducted during the first round of data collection based on the original set of questionnaire, have been re-examined based on this second set of questionnaire by the researcher.

## Appendix V. List of Major Interviews

Interviews	Interviewee(s)	Interviewee(s)' Position(s)	Time and Place	Main Subject(s) of the Interview
1	Mr. H		Nov.2004	Products, structure, budgetary process, environment, becoming a listed company
2	Mr. H		Dec. 26 <sup>th</sup> ,2006	Industrial reorganization, the function of budgeting, performance evaluation, R&D
3	Mr. J	The Head of Financial Management Centre	Dec. 2004	Who budget, budgetary procedure, budgetary problems, my research methodology, budgetary models
4	Mr. Zh	A senior manager in investment, whose office is next to Mr. H's	Spring 2007	Chinese culture and its relevance with the manufacturing industry
5	Ms. A. Z.	K. H. Subsidiary Ltd., chief accountant	Jan. 19 <sup>th</sup> , 2007	K. H.'s products and budgeting, the role of accounting and financial staff about budgeting, her working experiences, her concepts towards budgeting
6	Mr. H		16 <sup>th</sup> Jan. 2007	Indexes of Budgeting
7	Mr. H		12 <sup>th</sup> Jan. 2007	Tax, company structure, budgetary process
8	Mr. Ch	Production Manager of K. J. Subsidiary Ltd.	Nov. 2006	K.J., budgeting, his experiences in SOE and Company A
9	Mr. H		Jan. 2007	Group Company A's Budgetary

				Conference 2007
10	Mr. H		Dec. 2006	Company A's development during 2005 and 2006
11	Mr. H		Dec. 28 <sup>th</sup> , 2006	Chinese culture
12	Mr. H		March, 2007	Comparing Company A and B
13	M. H		Nov. 2006	K. J.'s budgeting
14	M. H		March, 2007	KPI
15	M. H		Feb. 2007	Other management and I. T. systems of Group Company A
16	M. H		6 <sup>th</sup> Jan. 2007	External Environment
17	M. H		Feb. 2007	Reasons behind investing K. T. Subsidiary Company
18	Mr. H		27 <sup>th</sup> Dec. 2006	Strategy and Future Objectives of Company A
19	Mr. H		8 <sup>th</sup> Jan. 2007	Managers' personalities
20	Mr. Li	General Manager of Small Electronic Household Appliances Department of Company B	Feb. 2007	Budgeting, ERP, Performance Evaluation, IT techniques
21	Mr. Ch	Vice Chief Financial Manager (first round data collection)– Chief Financial Manager (second round data collection) of Group Company B	Feb. 27 <sup>th</sup> , 2007	Company B's changes after the first round of data collection, budgeting, ERP
22	Mr. Ch		2005	History (reasons) for budgetary reform, budgetary procedure, budgetary completion, evaluation and motivation, budgetary method, other technology, budgetary participation and communication,

				AIS, external environment, culture.
23	Mr. H		2005	Distributing questionnaires in Company A, budgetary theory and budgetary practice
24	Mr. J		Jan. 2007	Budgeting of A1 Ltd.
25	Mr. T	General manager of K. R. Subsidiary Ltd.	2007	His experiences in budgeting, K. R.'s budgeting, K. R.'s R & D, K. R.'s surveillance system
26	Mr. X. H.	Major accountant of the 6 <sup>th</sup> Branch Company of A1 during the first round of data collection, major accountant of A1 during the second round of data collection	March, 2007	Budgetary indexes, the main platform of budgetary reflection/ feedbacks, the influences of budgetary systems, company culture, budgetary difficulties and direction of future development, budgeting as a 'fashion', Mr. L's leave after the failure of first year budgeting, Mr. X. H.'s personal working experiences concerning budgeting
27	Mr. Yan	Accountant in K. H. Subsidiary Ltd.	Jan. 19 <sup>th</sup> , 2007	His budgetary experiences in a Taiwanese company and in K. H., his advices on K. H.'s budgeting
28	Mr. Z	The head of strategic development centre, Company B	Feb. 2007	His education background, content of work in B, structure of functional

				departments of B, B's strategy and budgeting, company culture, external environment, departmental conflicts
29	Mr. Zh		Lunchtime, 2007	Employee's welfare, company structure
30	Ms. M	Cashier of K. B. Subsidiary Ltd.	Dec. 2006	Selling relationships among subsidiary companies and branch companies of Group Company A
31	Ms. X	Mr. H's secretary during the second round of data collection	Dec. 2006	Staff Turnover, training system, her own education and working experiences
32	Mr. X. H.		Nov. 2004	Top-down budgeting in the 6 <sup>th</sup> Branch Company of A1, general manager's understanding towards budgeting
33	Mr. H2	General manager of the 6 <sup>th</sup> Branch Company of A1 during the second round of data collection	Jan. 2007	The 6 <sup>th</sup> Branch Company of A1's budgeting
34	Mr. X	The earliest head of the Bureau of Auditing, Shun De District	Jan. 2007	External auditing, internal auditing, tax, China's national investment company, Chinese private enterprises' funding problems
35	Ms. L M	Governmental officer of Canton Province	Feb. 2007	Canton governmental departments' budgetary behaviours, as a comparison to case study companies'

				budgeting
36	Uncle Shen and Uncle Liu	Both governmental officers	Feb. 2007	Chinese politics and economic reform
37	Professor Xianping, Lang	Taiwanese expert graduated from Walton Business School, expert in Chinese corporate governance	Dec. 2006	Shun De's electronic household appliances companies, industrial reorganization
38	Ms. Huang	HSBC insurance officer, worked with both case study companies	Dec. 2006	Her work experiences with both case study companies, Chinese private owned enterprises
39	Mr. Luo	Insurance manager, China's National Investment Bank Group Ltd., worked with both case study companies	Dec. 2006	His work experiences with both case study companies, especially about Company A's going to the stock market and structural reorganization

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