Global Challenges of Management Control and Reporting

Contents

Introduction

Contemporary management control and reporting both face challenges. Consequently, a new and more sophisticated scientific approach is needed. From one point of view, interdisciplinary studies and theories are necessary. From another point of view, empirical research and practical issues call for a more specific and specialized approach. This complexity is reflected by the content of this book, which covers topics that emerge from present world's complexity. Therefore, the authors focus on ever-important issues (such as the strategic approach and its support by management control and reporting, survival of companies), and more modern issues (e.g. cultural aspects, measurement and reporting adjusted to branches, spheres and organizations and specific issues of management control and reporting).

The strategic approach to managerial control and financial statements and their role for company's survival is presented in papers by J. Dyczkowska (who addresses the question whether annual reports communicate strategic issues and focuses her study on reporting practices of high-tech companies), A. Bieńkowska, Z. Kral, A. Zabłocka-Kluczka (who explain the role of responsibility centers in strategic controlling), P. Kroflin (who explores the value-based management and management reporting examining impacts of value reporting on investment decisions and company value perception) and A. Reizinger-Ducsai (who discusses bankruptcy prediction and financial statements). The problems of management control and reporting and their adjustment to specific conditions and organizations are undertaken by T. Dyczkowski (who introduces his NGO performance model), Z. Kes and K. Nowosielski (who present the case study of the process of cost assignment in a local railway company providing passenger transportation services), S. Łęgowik-Świącik, M. Stępień, S. Kowalska and M. Łęgowik-Małolepsza (who analyse the efficiency of the heat market enterprise management process in terms of the concept of the cost of capital), and M. Pietrzak and P. Pietrzak (who discuss the problem of performance measurement in the public higher education). The cultural aspect of managerial control and reporting is explored in papers written by M. Nowak (who presents cultural determinants of accounting, performance management and costs problems showing the issue from Polish perspective using G. Hofstede and GLOBE cultural dimensions) and P. Bednarek, R. Brühl and M. Hanzlick (who provide a literature overview of planning and cross-cultural research). The specific problems and concepts of managerial control and reporting are investigated by M. Ciołek (who discusses the lean thinking and overhead costs), E. Nowak (who analyses the role of costs control role in controlling company operation), Ü. Pärl, R. Koyte,

S. Näsi (who examine middle managers' mediating role in MCS implementation), R.L. Sichel (who discusses the relevance of intellectual property for management control), J. Paranko and P. Huhtala (who analyse the productivity measurement at the factory level).

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LONG-RANGE PLANNING AND CROSS-CULTURAL RESEARCH. A LITERATURE REVIEW

PLANOWANIE DŁUGOOKRESOWE I BADANIA MIĘDZYKULTUROWE. PRZEGLĄD LITERATURY

Summary: Since 1980 many empirical studies in diverse fields have used Hofstede's [1980] framework and have tried to show that variation in cultural values leads to a variation of the researched outcomes. The purpose of this paper is to review existing literature on long-range planning and culture. This literature review shows the areas on which research has been concentrating, reveals gaps and provides directions for future research. Additionally, by scrutinizing research design issues, the aim of this paper is to guide researchers who are interested in doing studies in this area on methodological grounds as well. A general conclusion is that we still have very little knowledge of the influence of cultural values on long-range planning systems. Long-range planning as a subsystem of MCS has generally been studied in isolation from other controls and other contingency factors. Also, most of the studies are characterized by a simplistic interpretation of cultural dimensions. Thus, in the future more studies in this field should be conducted.

Keywords: long-range planning, culture, management control.

Streszczenie: Od 1980 roku wielu badaczy z różnych dziedzin nauki na podstwie koncepcji Hofstede'a (1980) próbowało wykazać, że wartości kulturowe mają wpływ na różne badane zmienne. Celem niniejszej pracy jest dokonanie przeglądu literatury dotyczącej planowania długookresowego i kultury. Przegląd ten zwraca uwagę na obszary, na których koncentrowały się dotychczasowe badania, ujawnia luki i wskazuje kierunki dalszych badań. Ponadto przez przeanalizowanie zagadnień z zakresu projektowania badań, autorzy niniejszej pracy udzielają wskazówek naukowcom, którzy są zainteresowani prowadzeniem badań w tym obszarze

również w zakresie metodyki badań. Ogólnie z przeglądu literatury wynika, że wciąż mało wiemy o wpływie wartości kulturowych na systemy planowania długookresowego. Planowanie długookresowe jako podsystem systemu kontroli zarządczej ogólnie badano w oderwaniu od innych mechanizmów kontroli oraz innych czynników sytuacyjnych. Ponadto większość badań cechowała się uproszczoną interpretacją wymiarów kulturowych. Zatem badania w tym obszarze powinny być kontynuuowane.

Słowa kluczowe: planowanie długookresowe, kultura, kontrola zarządcza.

1. Introduction

Over thirty years ago, Hofstede [1980] published his seminal contribution on cross-cultural values and their impact on individual and organizational issues. Overall, his work suggests that culture matters. Accordingly, using Hofstede's [1980] framework, hundreds of empirical studies in diverse fields have tried to show that variation in cultural values leads to a variation of the researched outcomes (for recent reviews see [Taras, Rowney, Steel 2009; Taras, Steel, Kirkman 2010; Tsui, Nifadkar, Ou 2007].

Hofstede [2001, p. 9] defined culture as "the collective programming of the mind that distinguishes the members of one group or category of people from another." Values, as one element of a culture, are assumed to be relevant for developing and establishing norms in society and, moreover, norms are the building blocks of institutions. More specifically, variation in cultural values can be expected to lead to different management control system (MCS) design alternatives [Harrison, McKinnon 1999]. This review refers to Malmi and Brown [2008], who define management control as those practices, procedures and rules to direct and influence employee behaviour in a broad sense. Companies implement a variety of techniques with which to achieve management control objectives. Planning is understood as a subsystem of the Malmi and Brown [2008] framework of management control systems. Planning is about goal setting and deciding on future directions either in the short term (about one year) or in the medium term to long term (about five years and more) [Anthony, Govindarajan 2001].

Inspired by the findings of cross-cultural studies, especially those of Hofstede [1980], Trompenaars [1994], and Laurent [1983], strategy researchers have been paying more research attention to the role of cultural values and beliefs in shaping the strategic philosophies and orientations of managers around the world. Indeed, researchers and practitioners have long suspected that national culture influences managers' strategic thought and action. The proposition that national cultural differences influence strategy is supported by Gilbert and Lorange [1994] and Schneider and Barsoux [1997]. In a conceptual paper, Schneider [1989] argued that organizations would approach the task of strategy formulation in different ways, reflecting the underlying national cultural assumptions. Haiss [1990] and Ross [1999] also support the argument that strategic decision-making can be influenced by national culture. A conceptual paper on this issue was provided also by Brock, Barry, Thomas [2000].

The purpose of this paper is to review the literature on long-range planning and culture. Although Harrison and McKinnon presented a similar review more than 15 years ago it seems that a new comprehensive understanding of cross-cultural issues may contribute to the literature in two ways. First, since Harrison and McKinnon's [1999] paper, several reviews [Fischer, Smith 2003; Kirkman, Lowe, Gibson 2006; Taras, Rowney, Steel 2009; Tsui, Nifadkar, Ou 2007] have deepened our understanding of cross-cultural management research and revealed the predominance of functional theories of cultural values. The standards that have been developed in other fields should help to compare and evaluate research in long-range planning. Second, by scrutinizing research design issues, we aim to guide researchers who are interested in doing studies in this area on methodological grounds as well.

In order to have a comprehensive look of cross-cultural research in long-range planning, we decided to follow the six steps of a structured literature review described by Hanzlick [2015, pp. 187–190].

2. A theoretical framework of long-range planning and culture

In this section, we address an important issue in cross-cultural research in long-range planning: How to conceptualize the broad concepts of culture and planning, and how to frame empirical research in this field? As the first attempt, Figure 1 is a broad sketch of cross-cultural research in planning. It shows the building blocks of this research stream: (1) the cultural and societal context, and (2) long-range planning as one component of a management control system. In this review, we will specify the relations between these blocks and how research has addressed them.

Hofstede's [1980; 2001] cultural dimension approach has been widely accepted because it allows a more detailed investigation of the abstract concept of culture. Taras, Rowney, Steel [2009] review 121 different conceptualizations and measurements of culture and conclude "that the existing measures of culture are fairly consistent in terms of their approach and closely resemble the methodology used by Hofstede [1980]" [p. 369]. This review will show that Hofstede's cultural dimensions dominate cross-cultural research on long-range planning, even though Hofstede's approach to culture has received ample criticism [Baskerville-Morley 2005; Baskerville 2003; McSweeney 2002ab; Smith 2002].

Culture, and especially cultural values, is learned during childhood. Values are represented in human minds, for instance, as scripts, schemas or mental models – Hofstede labels this as mental programming. They guide social behaviour and can be considered as social agreements about what is right and wrong. Culture is a collective phenomenon, transported from generation to generation, and it is shaped by ecological and socio-political contexts [Berry 2011]. Consequently, we will find differences between cultures depending on these different contexts.
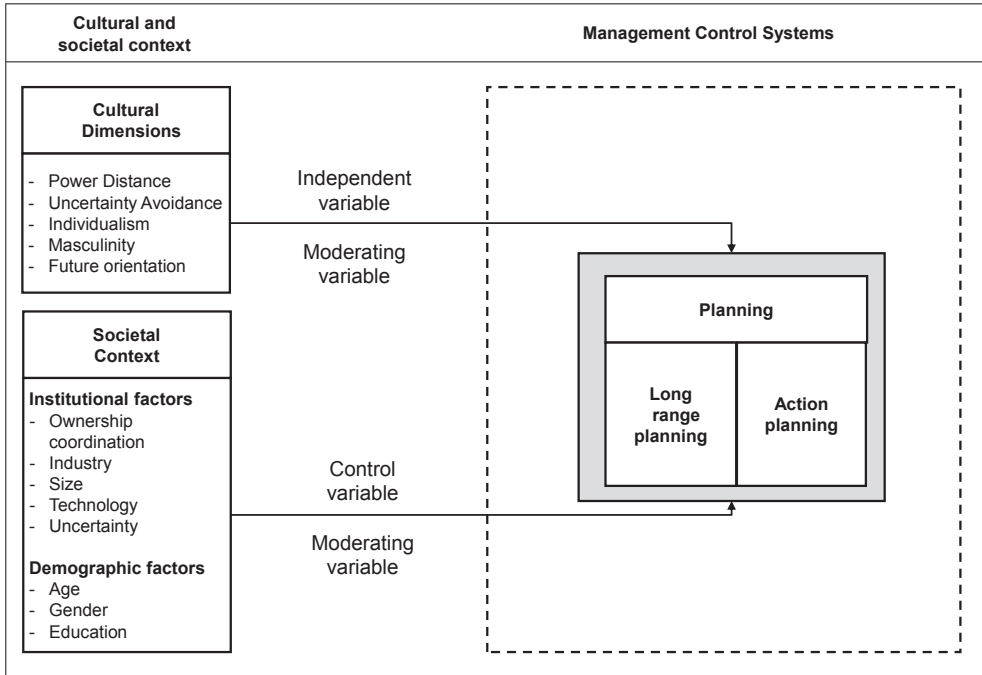
Figure 1. Mapping cross-cultural research in long-range planning

Source: own elaboration.

Hofstede's cultural dimension comprises of five values. (1) Social actors in a society with low power distance are convinced that power should be equally distributed and the extent of authority and status privileges should be low [Hofstede 2001; Nardon, Steers 2009]. (2) Uncertainty avoidance is the extent to which uncertainty is accepted. (3) Individualism (as opposed to collectivism) values the importance of the individual against collectives (e.g. family, clan, group, organization, society). (4) Masculinity addresses the value of assertiveness against empathy (femininity) in social interaction. (5) Future orientation encompasses the importance of long-term versus short-term aspects. Hofstede's research has shown that cultures can be compared based on these cultural dimensions and the measures he developed may be employed to determine to what extent they vary [Hofstede 2001]. All five dimensions have been deployed in cross-cultural research on MCS. However, in several studies, the dimensions were used as a narrative rather than being modelled. In fact, there are two main designs in this research field: cultural values as independent variable or cultural values as moderating variable. These relationships are depicted in Figure 1.

Figure 1 also exhibits institutional context factors as control variables or moderating variables. A major challenge in cross-cultural research is controlling for alternative explanations because national differences may be contingent on other societal or

economic factors [Aycan 2000]. Consequently, studies on management control that concentrate solely on cultural values will miss explanatory power because they omit important variables. For instance, the type of ownership coordination that is favoured in a country may influence the way a company is controlled [Whitley 1999ab]. Finally, variables known from the contingency literature [Chenhall 2007] as well as demographic factors are also part of the societal context in Figure 1.

3. Results of literature review

3.1. Method review

Our literature review shows that surveys are the main research method (64%), followed by field studies (21%) and experiments (15%). Field studies deal with middle managers and a mix of executives and other employees. Experiments exclusively rely on student samples. Surveys are the most heterogeneous form and mostly concentrate on samples of a team mixed across hierarchies, middle managers and top management team.

Literature review shows that the response rates vary in different studies for different groups of target respondents. Whereas three surveys, which target top management team, document the lowest response rates among all samples (16.9%, 19% and 20.8%), the other study reports the highest response rates among all samples 61%. One study of middle managers response rate amounted to 38%. Four surveys which target mix of executives and other employees reported various response rates (24%, 28%, 48.5%).

A further methodological issue refers to paying attention to sample equivalence [Tsui et al. 2007]. Schaffer and Riordan [2003] highlight the importance of aligning the research context in cross-cultural studies. When there is no congruence among the populations, it is difficult to compare the results of cross-cultural studies. The contextual alignment can be expressed by micro-level characteristics, often in the form of demographic factors, and macro-level ones, such as environmental factors or industry influences. Although there still needs to be precaution with blindly matching samples based upon such characteristics, it is still considered as a best practice. However, demographic variables might be related to cultural aspects. A way to circumvent this problem is by using random samples. Only two surveys did this. The remaining studies used a matching strategy. In cases where it is complicated to follow a matching strategy, it would be advisable to statistically control for differences [Schaffer, Riordan 2003]. Three studies followed this recommendation.

3.2. Content review

3.2.1. Cultural framework

The overwhelming majority of the studies (57%) used the Hofstede framework as the single source of cultural explanation. Scholars often do not even argue why

they use Hofstede, as if no other framework existed for cross-cultural studies. In those cases where authors provide arguments, they mostly state that Hofstede is the most widely used and well-established framework. However, from 2002 onwards, criticism has been raised against Hofstede and pitfalls and shortcomings of his typology have been noted, for example by Chiang and Birtch [2012]. Two studies examined cultural differences with the GLOBE framework. This late appearance is not surprising given that the GLOBE book was published in 2004. Interestingly, there are three studies that did not use any cultural framework at all. One study worked with various typologies.

3.2.2. Theoretical underpinning of studies

Looking at the theoretical underpinnings of the studies reveals puzzling insights. Most often, the theoretical acumen is not addressed explicitly. As many as 71 % of the studies presented "culture theory" as their subject matter. These studies relied on Hofstede's national culture construct as the main theoretical underpinning. The quote from Harrison exemplifies this: "This paper has drawn on Hofstede's [1980] dimensions of culture as a theoretical framework within which the cross-national or cross-cultural generalizability of research results in MAS design may be examined" [Harrison 1992, p. 12]. The remaining studies used contingency theory (2), upper echelons theory (2) and cultural immersion theory (1).

3.2.3. Basic aspects of long-range planning and culture

Despite the wide variation in its components, and whether an organization uses an analytical or incremental approach to it, long-range planning includes certain basic elements. Several aspects of strategy development that have been frequently discussed in the literature let themselves be examined and meaningfully discussed in the context of cultural differences. Managers set the future direction, examine strategic alternatives and choose from among those alternatives, implement choices, and make strategic assessment.

   Although these aspects are fundamental to the long-range planning, organizations and managers go about the task differently, and variations in their approaches can be expected. One of the main areas which have been researched is time horizons of long-range planning and its relation to uncertainty avoidance. Planning helps to cope with the unknown future by trying to design systems and patterns of management that would enable an organization to bridge the gap between where it currently is and where it desires to be in the future. Plans specify what people will do, when, and how, and serve as guideposts for future goal accomplishments. As noted by Hofstede [1980], in high uncertainty avoidance societies, people engage in rituals to reduce their level of anxiety, and long-range planning is indeed a ritual that acts as an agent for reducing anxiety. Long-term plans guard against anxieties associated

with uncertainty of the future, and shorter-term plans handle the stress of the present uncertainties. Thus, it appears that the higher the culture's uncertainty avoidance, the more the attention, time, and efforts to formulating longer-range plans that cover broad time horizons its managers give. Daley et al. [1985] found that Japanese managers, being high on uncertainty avoidance, are likely to reduce their anxiety by formulating long-term budgets more so than the US managers, who operate in a low uncertainty avoidance culture. However Ueno and Sekaran [1992] study did not confirm the hypothesis that Japanese companies, high on uncertainty avoidance, would tend to develop long-range budgets to a greater extent than US companies, which are low on uncertainty avoidance. Moreover, Ueno and Wu [1993] studied the cultural dimension of uncertainty avoidance and also failed in explaining different practices between the America and Japan in regard to long-range versus short-range planning.

Moreover, low uncertainty avoidance seems to be also positive force as well. Berrell, Wright, Hoa [1999] found that, compared to their Vietnamese counterparts, Australian managers avoided uncertain situations more by using long-range planning techniques. Efferin and Hopper [2007] expected that Chinese managers would use long-run time horizons when planning. However their study disclosed that the volatile Indonesian context militated against longer-run more quantitative planning, because it was just not practical in the situation of a particular company. Ayoun and Moreo [2008] research also fell short in providing a definitive support to either side of the argument, with a potential explanation that managers became less country dependent as they were exposed to greater levels of business environment sophistication. Altogether, the findings about the effects of uncertainty avoidance on the time horizons of planning seem contradictory.

Another area which has been researched is levels of subordinates' involvement in the strategy development and its relation to cultural values. There are two values – uncertainty avoidance and power distance – which are mostly included in these studies. Hofstede [1997] indicated that in low uncertainty avoidance work situations, top managers are involved in strategy, whereas in high uncertainty avoidance work situations, top managers are involved in operations. Employees belonging to high uncertainty avoidance countries prefer group decisions and are less in favor of risk-taking by individual decision-makers [Hofstede 1984, p. 123], making it more possible for a participative decision-making approach to be applied in weak uncertainty avoidance culture as it allows for some degree of autonomy [Rodrigues 1990]. However, this hypothesis was not supported by Ayoun and Moreo [2008], who found no consistent differences between managers from high uncertainty avoidance national cultures of Thailand and Turkey and low uncertainty avoidance national cultures of the USA and Malaysia with regard to degrees of their involvement of others in the process of strategy development. Taking under consideration power distance and the Japanese' higher score on this dimension than Americans, Chow, Kato, Shields [1994] predicted that Japanese would have a higher preference than Americans for top-down, as opposed to participative planning. This difference was

predicted to hold across levels of centralization and to be a positive function of it. But the results of the study did not support their hypothesis. Erez and Earley [1987], who examined three goal-setting strategies within three different cultural groups – assigned goals, goals participative set by a group representative and the experimenter, and goals participative set by a group – found that that culture did not moderate the effect of goal-setting strategies on goal acceptance, but it appeared to moderate the effect of the strategy on performance for extremely difficult goals.

Concerning the hypotheses on managers' creativity in developing strategy and activeness in shaping how their organization businesses will be conducted and their relation to cultural values, Geletkanycz [1997] revealed that the cultural dimensions of individualism, uncertainty avoidance, power distance, and short-term orientation correlated with executives' commitment to the status quo rather than advocating strategic chance. However, Ayoun and Moreo [2008] found that uncertainty avoidance had little or no association with the degree of openness to strategic change. In their study, hotel managers from the low uncertainty avoidance countries of the USA and Malaysia did not significantly differ in this regard from their high uncertainty avoidance counterparts of Thailand and Turkey. Similarly, Sternad [2012] hypothesized that in cultures with higher uncertainty avoidance, managers tend to use more retrenchment strategies, both internal as well as external ones. However, differences in uncertainty avoidance did not provide a consistent explanation of differences in the choice of strategic action in response to the economic crisis. These results are inconclusive. Some studies confirm the existence of cultural influences on strategic decision-making processes, while others did not find significant variations in strategy-related beliefs and practices of managers between cultures.

Another area which has been researched is long-range planning formality and its relation to cultural values. In weak uncertainty avoidance, there is a feeling that there should not be more rules than is strictly necessary, whereas in strong uncertainty avoidance societies, there is an emotional need for rules, even if such rules will never work [Hofstede 1997]. Chong and Park [2003] suggested that managers from high uncertainty avoidance cultures usually prefer to operate in a work environment where the long-range planning process is formalized and provides authoritative rules and specific steps that can be followed, a view that was shared by Nakata and Sivakumar [1996]. Joshi [2001] examined adoption of formal long-range planning and forecasting processes in India and compared it to the results of a similar study by Chenhall and Langfield-Smith [1998] performed in Australia. These processes showed a low adoption in India and were significantly different from the Australian sample. This was explained by the higher level of uncertainty avoidance in Australia. Moreover, Ayoun and Moreo [2008] found partial support for the linkage between uncertainty avoidance and the extent to which managers use strict and formal control over strategy implementation.

Some empirical work has concerned the type of data and data sources used in long-range planning and its relation to uncertainty avoidance. Schneider [1989] suggested

that in order to reduce uncertainty, some managers tend to heavily employ quantitative data, utilizing numbers and statistical evidence. For instance, Hitt et al. [1997] found that US managers (who are the nation of lower uncertainty avoidance than South Korea) were focused on discounted cash-flow, ROI, and projected demand, while their Korean counterparts emphasized growth and expansion. However, Ayoun and Moreo [2008], who studied the type of data sources used in strategy development in high uncertainty avoidance national cultures of Thailand, Turkey and low uncertainty avoidance national cultures of the USA and Malaysia, found that uncertainty avoidance was not associated with managerial preferences toward qualitative or quantitative data. Efferin and Hopper [2007] expected that Chinese managers (who are generally the nation of low uncertainty avoidance) would collect subjective information from *guanxi* or social networks for planning. Their study results supported this hypothesis. The extant literature indicates that manufacturers in Japan (who are the nation of higher uncertainty avoidance than China) adopt an integrated cost planning approach with their market-based strategic product development. For instance, Chen, Romocki, Zuckerman [1997] reported the results of a study that show that most of the US-based Japanese firms are similar to Japanese domestic firms in their use of target costing and value engineering, variable costing and strategic adaptation of traditional methods, such as standard costing and budgeting. Similar evidence was also provided by Shim and Steers [2012], who examined the leadership pattern and corresponding long-term planning system in Hyundai and Toyota. They found that the Japanese firm, which was higher in terms of uncertainty avoidance, exhibited a more deliberate planning, whereas Korean Hyundai lower in terms of uncertainty avoidance thrived for more risk and uncertainty to foster innovations.

4. Conclusions

Compared to Harrison and McKinnon's [1999] review, this review of a sample of 14 cross-cultural studies in long-range planning reveals small progress. Although a growing body of empirical work has provided a more systematic comparison of managers' strategic behaviors in different countries, the results were inconclusive. On the one hand, several studies found clear differences in long-range planning in different countries, and the differences were attributed to the cultural values of the managers surveyed. By contrast, other researchers found mixed results for similar strategic concepts they investigated, and cultural background failed to provide consistent influences on strategic behavior. Moreover, long-range planning as a subsystem of MCS has generally been studied in isolation of other controls and other contingency factors. If studies do not reflect the interactive effects of controls and different contextual variables, it remains questionable whether their results have any theoretical and practical value. To foster a more comprehensive understanding of the cross-cultural facets of long-range planning, future research may study long-range planning in relation to other management control systems and multiple contingencies,

not only culture. Also, in order to overcome the prevailing simplistic interpretation of cultural dimensions, researchers could identify the underlying characteristics that result in each culture's uniqueness. Doing so would probably involve a series of related studies involving field, experimental and survey-based methods.

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