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An investigation of the influence of culture on management accounting

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An Investigation of the Influence of Culture on Management Accounting

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This thesis is an investigation of the influence of culture on management accounting, using a middle-range thinking methodology. The study was motivated by the absence of any concerted attempt to model a framework that gives detailed clarification on how management accounting and culture might be related. The concept of culture has previously been related to many disciplines, including financial accounting. Identifying an association between culture and management accounting may assist with explaining the success of leading countries and companies.

The investigation of the relationship between management accounting and culture commences with an extensive discussion of meanings given to concepts of culture, national culture, and organisational culture and its relationship to financial accounting. Gray’s (1985, 5) framework for “societal values and the accounting sub-culture” was adapted by replacing the financial accounting sub-culture with management accounting. The framework is used to show how societal values influence management accounting roles (planning, controlling, measurement and decision-making), and how these in turn affect management accounting systems. To test the framework’s viability, a one-company case study was performed at Volvo, Australia.

The results of the study suggest a link between culture and management accounting. Organisational culture, rather than national culture, appears to have the stronger influence on the management accounting system of Volvo Australia. It was also found that the organisational culture at Volvo has changed over the last decades as a result of increasing competition around the world which forces companies to change their organisational cultures and borrow management concepts, from other cultures, to become more successful.
CHAPTER 1

INTRODUCTION

1.1 Objective of the thesis

This thesis will endeavour to explore links between culture and management accounting. It contributes to the accounting literature which proposes that national culture is a determinant of accounting practice. Unlike most studies to date which focus upon the nexus between national culture and financial accounting, this thesis will investigate the nature of the relationships, both direct and reflexive, between national culture, organisational culture and management accounting.

1.2 Major themes in the thesis

The concept of culture can be applied to numerous disciplines such as anthropology, management or accounting. Through cross-cultural research, different patterns can be identified which are characteristic of a group of people. Culture is, however, one among many variables that affect individuals in a society or organisation. Other factors include age, sex, environment, and technology. It is important to understand that culture is an active, living phenomenon through which people create and recreate their own reality.

Many of the studies which distinguish the features of accounting methods in different countries rely on the cultural dimensions addressed by Hofstede. In 1980, Hofstede developed a framework to help explain national differences in work-related values. By obtaining responses from members of one multinational company operating in 50 different countries across two points in time (approximately 1968 and 1972), Hofstede empirically established the cultural differences using four organisationally
relevant dimensions: power distance, uncertainty avoidance, individualism and masculinity. In 1988 Hofstede and Bond added a fifth dimension, Confucian Dynamism, which deals with the long term versus short term orientations of national cultures. Gray (1985) later adopted Hofstede’s framework of societal values. He developed a framework for financial accounting and culture and found a link between societal values and financial accounting values. This thesis takes a slightly different turn and attempts to link culture to management accounting.

When the impact of culture on management accounting is examined on the basis of Hofstede’s value dimensions, the limited evidence seems to suggest that management accounting in an organisation is strongly related to culture. If national culture has a strong effect on organisational culture, can the different effects of national culture and organisational culture on the organisation’s management accounting system be determined? As an attempt to answer this question, this study looks at a subsidiary of a multi-national corporation in an attempt to distinguish the different effects of national culture and organisational culture on the management accounting of the subsidiary.

Throughout the thesis a distinction is made between Western and Eastern cultures and accounting methods. For the purpose of the case study of Volvo Australia, three countries are studied in depth: Sweden, Australia and Japan. The Swedish culture is discussed because the company used in the case-study has its head office in Sweden. Australia is studied as a consequence of the subsidiary’s location in Sydney. Japan, on the other hand, has no direct link to the case study, but is seen as important both for the purposes of contrast and to highlight some obvious impacts of organisational culture on management accounting.

If a link between national culture and management accounting can be affirmed, this knowledge could be used in enhancing the efficiency and effectiveness of the
accounting systems of multinational corporations. When an organisation expands cross-culturally, especially between Western and Eastern cultures, there is bound to be cultural clashes between the subsidiary and head-office and between the individuals with different nationalities within the subsidiary. Establishing a link between culture and management accounting systems may expose potential cultural problems which could possibly be avoided and a management accounting system can be developed that best suits the company in its given cultural setting.

A common concern with some studies is a failure to consider human factors and reactions to the accounting systems and changes in the systems (Ferreira & Merchant 1992, 20). As will be clarified in Chapter 2 on “Culture”, an organisation is not a combination of objectively determined characteristics but a social reality enacted by its various members. Despite this, ignoring “people factors” is common in many field studies when the researchers consider the accounting issues at a purely technical level (see Chapter 3 “Accounting and culture in theory”). Failure to consider human reactions in a field study prevents the researcher from fully reaping all the benefits that the field research method is especially suited to yield. Thus, the role of the management accountant is one of the principle foci of Chapter 4. Consideration of the management accountant is even more important where the nature of management accounting and the relationship that culture has to management accounting around the world is rapidly changing.

1.3 The approach taken

This thesis is an exploratory work which seeks to contribute to an understanding of the relative impact of national and organisational culture on management accounting. The approach of the thesis can be divided into four steps. To begin with, the concept of
culture is established and Hofstede’s four dimensions of national values and Hofstede and Bond’s fifth dimension are examined. Secondly, the theoretical relationship of accounting to culture is studied. By examining Gray’s framework for financial accounting and culture it is suggested that culture could also be linked to management accounting.

The third step in this study involves the identification of cultural differences in management accounting techniques between Western and Eastern countries. By considering the differences, and by relating them back to Hofstede’s model of societal culture patterns, a foundation is proposed for the potential development of a framework linking culture with management accounting. Using Gray’s study as a model, four aspects of the role of management accounting are suggested, planning, controlling, measurement and decision-making, which could be related back to Hofstede’s cultural values:

The final step involves a one-company case study of Volvo Australia. Five members of the finance department were interviewed to identify management accounting techniques at Volvo Australia which may be culturally specific to Sweden. Semi-structured interviews were used to interview the members of the finance department at various hierarchical levels involved in management accounting. This allowed an understanding of the management accounting techniques used by Volvo Australia and the changing role of the management accountant at the company.

The examination of a foreign subsidiary in Australia provided the opportunity to examine the separate and combined influence of national culture and organisational culture on management accounting practices. An attempt was made to distinguish between the influence of national culture and organisational culture on management accounting techniques.
Case study research can also be called “field research”, “qualitative research”, “direct research”, “clinical research”, “idiographic studies”, “ethnographic studies” or “naturalistic research”. A number of characteristics distinguishes field research from other forms of research. Most obviously, the structure of the case study provides the opportunity for direct, in-depth contact with organisational participants, particularly in interviews and direct observations of activities, which provide the researcher with the primary source of research data. The present study focused on real tasks or processes, not situations artificially created by the researcher. Rather than using a research design which was completely structured, the field research was allowed to evolve along with the field observations. The presentation of data in case studies includes relatively rich (detailed) descriptions of company contexts and practices (Ferreira & Merchant 1992, 4-5).

In the academic literature, there have been criticisms of case studies, in particular when the observation and description are based on small sample sizes, and especially using only a single organisation. As an answer to these complaints, Kaplan (1987, 82) refers to an excellent response by Christenson (1983, 14), to this naive view of the scientific method, which notes that “Newton’s development of the laws of motion and gravitation was also based on a sample size of one: the solar system”. The example is not easily dismissed. Kaplan also argues that statistical analysis of large data bases is not the only method for documenting phenomena in the world. In fact, studying intensively the evolution of a management accounting system within a single organisation may provide a much sounder basis for proposing causal relationships than an analysis of statistical associations.

In the present study, the sample size is not of primary concern for the field researcher. Given the exploratory nature of the research and limitations of resources and
time, a one-company case study appeared to be the most suitable approach. Importantly, the author has explicitly sought to link the observations to a pre-existing body of knowledge, clarifying the links to prior knowledge and explaining the researcher's intended contribution.

One of the limitations of this paper will be my own values, assumptions and behavioural patterns' which may have influenced the study. This is a consequence of the fact that culture applies to everybody, even to myself as a researcher, a Swede researching in Australia. This limitation can be turned around and used as an advantage, since if I am aware of my own culture, it could function as a potential stepping-stone to meet others, and appreciate the value of their viewpoints (Schreuder 1987, 21).

1.4 Relevance of the study

When looking at recent trends in the business community, more and more practitioners and academics are starting to use a cultural viewpoint as an explanation of some countries' and organisations' immense success in the international market. In the case of Japan's success, Nishimura (1995, 318) comments as follow:

It is strongly believed by the Japanese business community that the successful penetration of the Japanese economy into the international markets has been due to its management system (including its management accounting). Consequently, large Japanese businesses have actively been transferring their management systems to their overseas affiliates. Also, non-Japanese managers in other countries have, in pursuit of high quality and productivity, introduced Japanese management methods into their companies.

With the increase in the number of multinational corporations and the growth of global competition, it is now even more important for management accountants to understand and accept differences in the practice and development of management accounting in organisations around the world. With the strong competitiveness in the
world, the researcher believes that both Western and Eastern countries could benefit from learning about each others’ management accounting systems.

1.5 Methodology of the thesis

Past research related to culture and management accounting has been mainly in the field of budgeting (e.g. O’Connor 1995, Ueno & Wu 1993). Most studies have been performed with a positivistic methodology with survey data analysis, hypothesis and generalisations. The methodology employed in this study is in the direction of Laughlin’s (1995) “middle-range” thinking. The characteristics of any methodology encompass three continuums: theory, methodology and change. At one end of the ‘theory’ continuum is positivism which defines a theory according to very rigid tests, while at the other end is Kuhn’s symbolic interactionism, which is characterised by ill-defined theory with no prior hypothesis. “Middle-range” theory has the characteristics of “skeletal” generalisations to provide a loosely constructed theory. Ontologically, positivism is characterised by the belief that a generalisable world is waiting to be discovered. For the symbolic interactionist, sensible generalisations may not be possible.

The ‘methodology’ of “middle-range” theory is characterised by the importance given to the observer, who is always part of the process of discovery. There is also a strong presence of both descriptive and analytical case-study research, tied to “skeletal” theory. In contrast, positivism assumes an independent observer, it is exclusively quantitative, and relies upon cross-sectional data tied to hypotheses. Positivism seeks to derive tight conclusions from findings, mainly using statistical inference. Kuhn’s symbolic interactionism is similar to “middle-range” theory except that conclusions derived are more ill-defined and inconclusive, although empirically rich in detail.
The 'change' characteristics of "middle-range" theory emphasises the ability to be open to radical change but also, if appropriate, the maintenance of the status quo. Positivism, in contrast is very supportive of present arrangements.

1.6 Summary of chapters

Chapter 2 examines the concept of culture, with its definitions and manifestations and how it differs between countries. The purpose of the chapter is to set the scene for the further discussion of accounting and culture in the following chapters. Hofstede's study (1980) is used as a general framework for values and national culture. In his study, Hofstede identified four levels at which culture manifests itself: symbols, heroes, rituals and values. National cultures reside mainly in deeply-rooted values, while organisational cultures reside in the more flexible manifestations of symbols, heroes and rituals. Hofstede (1980) and Hofstede and Bond (1984) developed five dimensions of national culture which are power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity, and Confucian dynamism.

Although Hofstede's dimensions were used in explaining national culture, they are also useful in the discussion of organisational culture. Organisational culture differs from national culture in the sense that it is characterised more by symbols, heroes and rituals rather than by values. With the entry of the alternative paradigm into the world of accounting research, the development of culture in organisations has assumed even greater importance.

Chapter 3 examines the relationship between culture and accounting. Firstly, the development of an awareness of accounting as a social and institutional practice is examined. This is followed by an examination of a theoretical framework for accounting and culture. Although in the academic literature a theoretical framework for financial
accounting and culture has been developed by Gray (1985), the relationship between management accounting and culture is yet to be established. The last section of the chapter examines the present attempts to develop a framework for management accounting and culture.

After the theoretical discussion of accounting and culture, Chapter 4 provides an extensive investigation into the link between culture and management accounting in practice. The developments and differences between Western and Eastern management accounting will be examined. The chapter also provides an outline of the changing role of the management accountant as a response to the recent developments in management accounting. The changing role is the result of an increasing expansion of businesses to become more multi-national and technologically advanced. Upon completion of the discussion on culture and management accounting, a theoretical framework is proposed for the influence of culture on management accounting.

The theoretical framework is used when performing the case study at Volvo, Australia in Chapter 5. Issues relating to the history of the company, the organisational culture of the company and other background information will be covered in the first half of the chapter. The second part of the chapter examines the information collected from the semi-structured interviews at Volvo Australia in an attempt to investigate the link between management accounting and culture.

The final chapter concludes the thesis and looks at the insights which the study has provided for the future development of a framework for management accounting and culture.
CHAPTER 2
CULTURE

2.1 Introduction

This thesis is concerned with the relationship between management accounting and culture. It is believed that management accounting varies in different countries as a consequence of business needs and cultural values peculiar to individual countries. The need to understand the nexus between culture and management accounting has become increasingly more important with the rapid changes in business practice world-wide.

In order to understand the relationship which management accounting may have with culture, it is important to understand the concept of culture. Therefore, the purpose of this chapter is to look into the definitions and manifestations of culture and to see how culture differs between countries. This chapter will set the scene for the further discussion of accounting and culture in the remaining chapters.

Cross-cultural studies represent an important part of research in order to understand how and why cultures vary. The issue of ethnocentrism is discussed to emphasize the importance of such studies. Different researchers have come up with a range of theories of how to explain cultural differences. Velayutham and Perera use the metaphysical notion of self, which is believed to be the central concept of culture, to explain cultural differences. Hofstede's research, however, is by far the most cited and thorough study conducted in the field of cross-cultural management, with researchers across a wide range of disciplines using his conceptualisation within their own field of research.

In his study, Hofstede (1980) distinguished four levels at which culture manifests itself: symbols, heroes, rituals and values. He found the manifestations of
culture at both national and organisational levels. Whereas national cultures reside mainly in deeply-rooted values, organisational cultures reside in the more flexible manifestations of symbols, heroes and rituals. To demonstrate the application of Hofstede’s work, three countries have been chosen, Sweden, Japan and Australia, to be compared on both cultural levels.

2.2 Definition of culture

As far as the English language is concerned, culture is a modern concept, apparently used only after 1871 in an anthropological and social sense to refer broadly to civilisation and social heritage. This meaning of the word does not appear in an English dictionary until the 1920s. Its use within the German language is somewhat older, and can be traced back to approximately 1800 (Morgan 1986, 359).

The word culture has been derived metaphorically from the idea of cultivation, the process of tilling and developing land. Culture has typically been referred to as the pattern of development reflected in a society’s system of knowledge, ideology, values and laws, and day-to-day rituals. Tylor (1871), a nineteenth century anthropologist, defined culture as: “(t)hat complex whole which involves knowledge, beliefs, art, morals, law, custom and other capabilities and habits acquired by man as a member of society” (quoted in Lévi-Strauss 1963, 4). The word has also frequently been used to refer to the degree of refinement evident in such systems of belief and practice. Both of these usages come from nineteenth-century observations of “primitive” societies with different levels and patterns of social development. Nowadays, the concept of culture is not as old-fashioned, and instead is used to signify that different groups of people have different ways of life (Morgan 1986, 111).
The increasing use of the term culture within the social sciences has led to definitions of varying generality. The definitions of culture also vary depending on which discipline in which it is used, e.g. sociology, social anthropology, psychology, management, accounting. In 1952 Kroeber and Kluckhohn, after claiming to have identified almost three hundred definitions, defined culture as:

(p)attems, explicit and implicit of and for behavior, acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artifacts; the essential core of culture consists of tradition ... ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other, as conditioning elements of future action (Kroeber & Kluckhohn 1952, 181).

Despite the ease with which some authors define culture, it remains an elusive concept (Dent 1991, 708). In cultural anthropology, culture is seen to be an ordered system of meanings and symbols in terms of which social interaction takes place. Since culture is a symbolic gesture, its meanings being created and maintained in the course of social interaction, it is a public phenomenon (Geertz 1993b, 12). Geertz also states that human behaviour can be understood from symbolic action and, by making culture something public, it can be related to social action. In saying this, Geertz confronts the definition of culture common in both cognitive anthropology and American cultural anthropology where culture is viewed as mental competence, forms of thought or systems of ideas, meanings and symbols. This definition, however, lacks any reference to social action (Rasyid 1995, 11). According to Geertz, culture is instead constituted in interaction in a social network by the communication of symbols within different human groups, and to understand culture means to search for meaning within this interaction. Consequently, in the search for meaning the anthropologists use ethnography to describe
the rhetoric of life.

A modern definition of culture, within the management discipline, by Williams et al. (1989, 7) refers to culture as: “(t)he commonly held and relatively stable beliefs, attitudes and values that exist within the organization”. Probably one of the most well known definitions of culture, also within the discipline of management, is by Hofstede (1980, 25) who defines it as “(t)he collective programming of the mind which distinguishes one category of people from another”.

The numerous and varied definitions and conceptualisations of culture all seem to converge on three principle ideas: (1) culture is defined by patterns; (2) culture is manifested symbolically in a variety of indicators; and (3) culture is shared among two or more people (Lytle et al. 1995, 170). In other words, culture is the integrated, complex set of interrelated and potentially interactive patterns characteristic of a group of people.

Whether we apply the concept of culture to anthropology, management or accounting, we are talking about different beliefs, values or even rules which describe how we as an individual, as part of an organisation, or as part of a nation, should conduct ourselves. These layers are, however, only a few amongst the numerous kinds of culture. Examples of other cultural types include occupational, regional, ethnic, religious, social class, educational, business, generation, age, gender, family and even yogurt. In this study only occupational, organisational and national culture will be discussed, using Hofstede’s definition of culture as a framework.

According to Morgan (1986), culture is simply a process of reality construction that allows people to see and understand particular events, actions, objects, utterances, or situations in distinctive ways. These patterns of understanding also provide a basis for
making one's own behaviour sensible and meaningful. To be successful in creating the appropriate social reality, one has to adhere to the rules found in social norms and customs (Morgan 1986, 129). Therefore, when a person is visiting a different culture, such as visiting a different country, one should learn the norms and customs to be able to fully understand the other culture.

A more systematic and closer approach to understanding culture can be used if culture is viewed as a process of reality construction. According to sociologist Harold Garfinkel (1967), the most routine and taken-for-granted aspects of social reality are skillful accomplishments. When we walk, talk, move, travel we are barely aware of the numerous amounts of social skills which are employed. To demonstrate what happens if our normal patterns of life are deliberately disrupted, Garfinkel suggests that if we look a fellow train passenger in the eye for a prolonged period of time that he or she will get increasingly uncomfortable. They then will perhaps inquire what is wrong, change seats, or get off at the next stop. This is an example of how life within a given culture flows smoothly only insofar as one’s behaviour conforms with unwritten codes. If these norms are disrupted the ordered reality of life inevitably breaks down. Therefore, it can be said that the nature of culture is found in its social norms and customs, and that if one adheres to these rules of behaviour one will be successful in constructing an appropriate social reality. Thus, a business person visiting overseas may be advised to learn the norms that will allow him or her to assimilate better with the natives.

Organisational psychologist Karl Weick (1979) has described the process through which we shape and structure our realities as a process of enactment. Weick’s concept stresses the proactive role that we unconsciously play in creating our world and rejects the objective characteristic that reality is believed to contain. An active role is
taken in bringing our realities into being by interpreting these realities our own way. Picasso tries to show a person's personality and mood in his paintings while other people believe a photograph is a better way to portray someone.

In sum, it doesn't really matter from which perspective culture is looked upon as long as it is seen as an ongoing proactive process of reality construction. To simply look at culture as a simple variable that societies or organisations process is not comprehensive enough. Culture must be understood as an active, living phenomenon through which people create and recreate their own reality (Morgan 1986).

By accepting that culture is an ongoing proactive process of reality construction some problems will occur when doing cross-cultural research, notably the ethnocentrism which limits the acceptance of other cultures. In order to do cross-cultural research, researchers must broaden their cultural awareness in order to understand as objectively as possible and to accept differences in cultures. Another related issue that needs to be addressed is how the question of self and freedom affect how we interpret the world around us. The metaphysical question of self is believed to be at the centre of the concept of culture, and can therefore be used to explain why there is a cultural difference in the first place.

Once we understand the importance of understanding other cultures and how the metaphysical question of self within us influences our society, only then can we start building a framework of the manifestations of culture.

2.2.1 Ethnocentrism

Prior to 1970 most research into culture and human behaviour had a distinctly ethnocentric bias (Triandis 1980). Ethnocentric people have only been exposed to their
own culture, and therefore have only one world view. As a consequence, when they come into contact with other cultures, for example through multinational corporations, judgments are made through the eyes of their own culture (Jackson 1993, 21). People from foreign countries are judged from the perspective of people with ethnocentric standards, value assumptions and stereotypes, therefore limiting the objectivity with which they view the other culture.

Triandis (1990) concludes from his studies in cross-cultural psychology that people from all cultures have a tendency to: think of what goes on in their own culture as natural and correct, and what goes on in other cultures as not natural or incorrect; perceive their own customs as universally valid; believe their own norms, roles, and values as being correct; favour and cooperate with members of their own culture, while feeling hostile towards members from foreign cultures. Ethnocentrism could therefore be seen as a challenge for researchers and managers within the area of culture. The challenge is to broaden cultural awareness in order to be successful internationally.

In recent years there has been an increased interest in cross-cultural research, primarily due to the desire to test the universality of Euro-American psychological theories. Research has shown that some contemporary psychological theories, such as motivation theory, are not universal and differ depending on theories of culture (Mathews & Perera 1993, 328). One of the most well known cross-cultural researchers is Hofstede who, in the field of management, sought to analyse differences in work-related values. He attempted to develop a commonly acceptable, well defined and empirically based terminology to describe cultures. When developing descriptions of cultural values in a particular society, such as those identified by Hofstede (1980), and when trying to understand the nature and purpose of organisations and the role of
accounting in society, the metaphysical notions of self and freedom have been used to explain the differences.

2.2.2 Metaphysics and cultures

Business practices in the world today vary between countries and continents. By using the metaphysical notions of the self and freedom, Velayutham and Perera (1996) set out to explain the differences that appear to exist between Eastern and Western management and accounting thought. By linking the metaphysical notions of the self and freedom to cultural values, they also attempted to explain the role of accounting in organisations and society.

Metaphysics, which has its roots in philosophy, is the study of the assumptions of the nature of ‘man’ and the external world. The famous German philosopher Schopenhauer (1958, 8) defines metaphysics as follows:

(b) by metaphysics I understand all so called knowledge that goes beyond the possibility of experience, and so beyond nature or the given phenomenal appearance of things, in order to give information about that by which, in some sense or other, this experience or nature is conditioned, or in popular language, about that which is hidden behind nature, and renders nature possible.

Metaphysical issues raise questions such as “why am I here?” and “what am I?”. In many cases, the answers to these questions are provided by particular philosophical ideas or religious beliefs in society. The main metaphysical issues that have concerned philosophers over time are the concept of the external world or reality, the concept of

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1A common distinction, that will be used throughout this thesis, for simplicity, is the philosophical dividing line between national cultures of the West and the East. Included in the West are those countries that are traditionally Jewish, Christian, or Muslim. All three religions are concerned with truth, with fundamentalists believing that they have the one truth and that all others are wrong. Included here are European countries, Scandinavian countries, The United States, Australia and New Zealand. The East is represented by Confucianism, Hinduism, Buddhism, Taoism, and Shintoism. Countries which are described as Eastern assume that every human being can have their own truth, which can be different to
freedom, the existence of God, persons and bodies, and space and time (Taylor, 1975). Velayutham and Perera (1996) believe that the metaphysical question of self is at the centre of the concept of culture. By dividing the self into “egocentric-contractual”, which is common in the West, and “sociocentric-organic”, common in the East, these alternative concepts of self can be related back to culture and organisations of society.

According to the concept of egocentric-contractual relationships, every person is unique with a dynamic centre of awareness, emotion, judgment, and action organised into a distinctive whole and set both against other such wholes and against a social and natural background (Geertz 1975, 48). The Western view of the individual-social relationship is based on the primacy of the individual, which becomes the focal point for all structures and institutions.

The sociocentric-organic conceptualisation of self focuses on the human body as an interdependent system, a metaphor for society. This concept of self can be found in Shintoism, Confucianism and Buddhism which emphasises the family as the base of a person’s life. The actions of the individual reflect on the family and society and, therefore, the family and society place certain obligations on the individual. The actions of the individual are directed at benefiting groups as much as the individual. If an individual gets expelled from the group, he/she will loose his/her identity (Velayutham & Perera 1996, 69). In contrast to the Western concept of freedom which creates a culture based on the concept of rights, the Eastern concept of freedom forms a culture based on obligations. Thus, one can assume rights to be closely aligned with individualism and obligations to be closely aligned with collectivism. These relationships are very similar to those identified by Hofstede (1980).

everyone else's. Therefore, the people in the East can adhere to more than one religion or philosophical school. Included here, for example, are all the Asian countries.
2.2.3 Hofstede's manifestations of culture

Hofstede (1980) has distinguished four levels at which culture manifests itself: the levels of symbols, heroes, rituals, and values. Together they form the complete manifestations of culture. They do, however, differ in flexibility, from superficial and easy to change, to deeply-rooted and difficult to change. If put together they would form the shape of an onion, where symbols are the top-layer, followed by heroes, then rituals, and finally values in the very middle. Hofstede refers to this concept as the *onion of culture*.

**Figure 2.1: Onion of culture**

Symbols can be defined as “words, gestures, and objects to which the particular culture attributes particular meanings” (Hofstede 1980). A symbol is taught through
culture and is relatively superficial. New symbols can easily be picked up, and old ones effortlessly dropped. Included on this level is language, how people dress, and money. In Australia a typical example would be the expression ‘mate’, which indicates a friendly attitude towards a friend, acquaintance or even a stranger.

*Heroes* can be defined as “people, alive or dead, real or imaginary, whom a culture takes as models for behaviour, and include anti-heroes as negative models” (Hofstede 1980). Heroes are not necessarily leaders, they can be artists, sports champions, robbers, preachers, mothers, soldiers, or even cartoon figures. For Australians Ned Kelly is seen as a hero, being the Australian version of Robin Hood.

A definition of *rituals* would be “activities in which all or some members of a cultural group engage, and which carry their purpose in themselves” (Hofstede 1980). Rituals are seen to be technically superfluous, but socially indispensable. When exercising a greeting ritual, a Japanese person might bow, while the French shake hands. Rituals are mostly done unconsciously and are deeply determined by cultural history and tradition. The Melbourne Cup is very much a ritual for Australians.

The most deeply-rooted manifestation of culture consists of *values*. These are “broad tendencies to prefer certain states of affairs over other states of affairs, usually acquired in our early youth, largely unconscious, and not susceptible to argument” (Hofstede 1980). Our values determine our perceptions of what is good or bad, right or wrong, normal or abnormal. Hofstede (1983) shows that value differences are part of national culture. Using data from different subsidiaries of the same multinational corporation (IBM), Hofstede’s study showed that there were stable differences in value patterns among country samples. Of primary importance here is that values are expressed in rituals, heroes, and symbols.
As shown by the ‘onion of culture’, symbols, heroes and rituals are all relatively changeable and, therefore, are affected by practices. Values, on the other hand, are not very flexible and will, as a consequence, not be manifested by practices. Hofstede found that national cultures reside mainly in deeply-rooted values, while organisational cultures are a more superficial phenomenon. Organisational culture, on the other hand, resides in what is labeled as ‘practices’ because things like symbols, heroes, and rituals are recognised by the members of the organisation but not necessarily by outsiders.

Other authors also have attempted to classify the concept of culture. Pettigrew (1979) regarded culture as the source of a family of concepts. According to Pettigrew the offsprings of the concept of culture are symbols, language, ideology, belief, ritual, and myth. When compared to Hofstede’s conception of culture, Pettigrew’s description of ‘values’ would be included in ideologies and myth.

Lytle, Brett, Barsness, Tinsley and Janssens (1995) saw a need for an integrated theory of culture that can explicitly guide research testing across cultures. By integrating and synthesising existing conceptualisations of culture they formulated an operationalisable, multilevel theory of culture. Dimensions of culture such as individualism vs. collectivism, uncertainty avoidance (see Appendix 1) are all put together in a collage. A dimension may be broad, or narrow in scope, overlap with neighbouring dimensions, but together they form a complete picture of the cultural whole. A single dimension can be manifested in indicators such as values, cognitive structures, and behaviours at the individual level of analysis; structures and rituals at the organisational level of analysis; and artifacts and attributes of social systems. There may be, therefore, multiple indicators for each dimension of culture. Lytle et al.’s paradigm for cross-cultural research can be applied to any social science theory or model, whether
individual, group, organisational, or societal. It can guide research focusing on just one or many cultural dimensions regardless of whether those dimensions have already been conceptualised and measured by previous researchers, or are newly created. Narrower models of culture tend to be indicator bound with their definitions tied to particular types of indicators such as values (Hofstede 1980), shared meanings and symbols (Geertz 1973), or information processing (Erez & Earley 1993).

The remainder of the chapter will firstly look at Hofstede’s five dimensions of national culture and how they differ between Sweden, Japan and Australia. Secondly, the development of organisational culture will be discussed and how different research paradigms have affected it. The members of an organisation develop common perceptions that, in turn, affect their attitudes and behaviour. The strength of that effect depends on the strength of the organisation’s culture. Research, however, indicates that national culture has a greater impact on employees than does their organisation’s culture (Adler 1986, 46-48; Soeters & Schreuder 1988). Therefore, national culture must be taken into account if accurate predictions are to be made about organisational behaviour in different countries. Accounting is one very important manifestation of organisational culture. As we shall see in this chapter, German employees at an IBM facility in Munich will be influenced more by German culture than by IBM’s culture. This means that as influential as organisational culture is to understanding the behaviour of people at work, national culture is even more so (see Figure 2.2).
2.3 National culture

Amongst the definitions of national culture are those by Adler et al. (1986), Brislin (1983), Child (1981), Schein (1985), Triandis (1984) and Hofstede (1980). Of these Hofstede’s (1980) is arguably the most widely used in business and accounting research. National culture is defined by Hofstede (1987) as “the shared mental programming of a majority of the people in a country”.

Out of his four manifestations of culture, Hofstede (1980, 1983, 1984) has proposed that values differ in accordance with national cultures, whereas symbols, heroes and rituals are more related to organisational culture. By using data from the IBM Corporation databank on international employee attitude surveys in 40 countries (later 63 countries), the results showed that there were stable differences in value patterns
among the country samples. These differences correlated with measures of behaviour of the countries as wholes (such as income inequality, religious affiliation, press freedom, and government spending on aid to other countries). Four underlying dimensions were identified to help explain the national value differences which Hofstede found (Hofstede 1987, 4-5):

1. **Power Distance.** This refers to the extent to which members of a society accept that power in institutions and organisations is distributed unequally. Power distance ranges from large to small. In large power distance societies people tend to accept a hierarchical order in which everybody has a place, whereas in small power distance societies people tend to strive for power equalisation and demand justification for those power inequalities that do exist. Fundamentally it describes a society's way of handling inequality. It also identifies some societies as more unequal than others.

2. **Uncertainty Avoidance.** This refers to the level of anxiety within members of society in the face of unstructured or ambiguous situations. It is expressed in aggressivity and emotionality, ranging from strong to weak. Fundamentally, it describes a society's intolerance for ambiguity (that the future is unknown), from trying to control it at all costs to accepting to live with the ambiguity (just let it happen). It identifies some societies as rigid and others as flexible.

3. **Individualism versus Collectivism.** This dimension relates to the degree of integration a society maintains amongst its members, or the relationship between an individual and his/her fellow individuals. In an individualistic country, individuals are supposed to take care of themselves and of their immediate families only. On the collectivist side, individuals throughout their lives remain emotionally integrated into in-groups, which protect them in exchange for unquestioning loyalty. These socio-
cultural values are influenced by the metaphysical notion of self, which acknowledges differences in the concept of self between East and West (Velayutham & Perera 1996).

4. **Masculinity versus Femininity.** This dimension relates to the division of the roles between the sexes in society. On the masculine side we find strongly differentiated social sex roles. The masculine role implies achievement, assertiveness, sympathy for the strong, material success, showing off, heroism, and making money. On the feminine side we find overlapping social sex roles which imply warm relationships, people before money, modesty, care for the weak, preservation of the environment, and quality of life.

At the national economic level, individualism and national wealth (per capita gross national product) are quite strongly related (Hofstede & Bond 1988). The data used in Hofstede’s IBM study convincingly showed, however, that causality goes from wealth to individualism and not vice versa. This means that people in wealthier countries become more individualistic. If the resources in a country allow people to “do their own thing”, they will start doing just that.

Hofstede’s IBM study revealed no relationship between culture and economic growth that holds true for all countries. Surprisingly, in the wealthy countries individualism was associated with slower economic growth. Apparently, if everybody does his or her own thing, the economy grows less quickly because fewer people work for collective purposes.

In the search for answers to national economic growth, Hofstede and Bond came to realise that there must be some influence of the researchers’ own culture on the results which they had obtained. These concerns led to the development of the Chinese Value Survey (CVS) by a number of Chinese social scientists which was distributed to 22 countries. The survey included questions about “filial piety”, which can be explained
as "honouring of ancestors and obedience to, respect for, and financial support of parents" (Hofstede & Bond 1988, 6). The results showed that there was no CVS dimension equivalent of Uncertainty Avoidance (Hofstede & Bond 1984), this dimension is associated with man's search for truth, which the Chinese, for example, (or any Eastern country) do not seem to believe to be an essential issue.

There was, however, a new dimension identified in the CVS which was in line with the teachings of Confucius. Using insights gained from the CVS Hofstede and Bond developed a fifth dimension called Confucian Dynamism which deals with ideas from Confucius about future-oriented mentality versus a more static, tradition-oriented mentality. This dimension deals with a society's search for truth, and is basically the same as uncertainty avoidance but on a philosophical and religious level. Uncertainty-avoiding cultures try to minimise the possibility of unstructured situations by adhering to strict laws and rules, safety and security measures, and a belief in absolute Truth: "There can only be one Truth, and we have it" (Hofstede & Bond 1988, 11). Uncertainty-accepting cultures are more tolerant of behaviour and opinions that differ from their own and therefore have as few rules as possible. On a philosophical and religious level they are relativist, allowing for a more unrestricted and flexible practice of religions.

Konf Fu Ze, which the Jesuit missionaries renamed Confucius, was a high civil servant in China around 500 BC. Known for his wisdom, Confucius talked about practical ethics without any religious content. The key principles of Confucian teaching are: 1) The stability of society based on unequal relationships between people; 2) The family as the prototype of all social organisations; 3) Virtuous behaviour toward others, which means treating others as one would like to be treated oneself (it does not extend
as far as the Christian injunction to love thy enemies); 4) Virtue with regard to one’s tasks in life, consisting of trying to acquire skills and education, working hard, not spending more money than necessary, being patient, and persevering.

The country scores received in the CVS were strongly associated with the Eastern countries’ economic growth. Hong Kong, Taiwan, Japan, and South Korea received extremely high scores, whereas Australia, New Zealand, the United States, Britain and Canada ended up with low scores. Thus, Hofstede and Bond had found a cultural link to an economic phenomenon. This could be an explanation to the economic boom during the last 10 years of both China and Japan. This occurrence was apparent amongst people who were known to value thrift and perseverance before the present boom started. Therefore, it is believed that cultural values are part of the cause, and economic growth to be the effect.

In a seminar held at the University of Technology of Sydney in November 1996, Hofstede referred to this fifth dimension as long term orientation versus short term orientation. The long term orientation is the fostering of virtues oriented towards future rewards, in particular: perseverance, thrift, ordering relationships by status and observing this order; and having a sense of shame. Examples of countries with long term orientation are Japan, Hong Kong, India, and Brazil. Short term orientations were defined as the fostering of virtues related to the past and present in particular: respect for tradition, reciprocation of greetings, favours, and gifts, protecting your face, and personal steadiness and stability. Some of the countries classified as short-term are Canada, Great Britain, Sweden, and the United States.

This dimension can be somewhat confusing for readers from the West as these values would not normally be important. Thus, the values will now be explained further.
The shared value of “ordering relationship by status and observing this order” is quintessential Confucianism in action, because at the heart of the Chinese conception of being human lie hierarchical dualities and inter-relatedness. The value of having a “sense of shame” supports inter-relatedness through sensitivity to social contacts. The value of “thrift” leads to savings, which means availability of capital for reinvestment, an obvious asset to economic growth. Finally, “perseverance” suggests a general tenacity in the pursuit of whatever goals a person selects, including economic goals.

For those cultures characterised by short term orientations, “protecting one’s face” would detract from getting on with business, while the “reciprocation of greetings, favours, and gifts” is a social activity more concerned with good manners than with performance. Too much “respect for tradition” impedes innovation, thus, part of the secret of Japan’s economic success is the ease with which they have accepted Western technological innovations. Finally, “personal steadiness and stability”, if over-stressed, would discourage the initiative, risk seeking, and changeability required of entrepreneurs trying to exploit the world trade. Hofstede and Bond (1988, 19) state:

(i)t is remarkable that the value dimension associated with the economic success of East Asiatic countries over the past 20 years was not found with questionnaires developed by Western researchers. It took the Chinese Value Survey - an Eastern instrument - to identify this dimension. This is a powerful illustration how fundamental the phenomenon culture really is. It not only affects our daily practices, it also affects the theories we are able to develop to explain our practices. Culture’s grip on us is complete.

When dealing with “dimensions” some care should be taken to keep a healthy sense of realism. These concepts are constructed to be used as a tool for analysis. According to Hofstede (1987), the sole purpose of the dimensions is to add some
structure to a mass of cultural information that otherwise is too complex to grasp. The number of dimensions are of no significance, it is how helpful they are to explain and predict phenomena. Over the years, other researchers have identified many different dimensions (see Appendix 1). Some of the dimensions have been purely theoretical, others like that of Hofstede (1980) are based on significant empirical data. The researchers vary from psychologists, sociologists, anthropologists, political scientists, and economists, many of their entries overlapping with other dimensions.

In the case of culture and its manifestations, it is important to remember that these are merely generalisations. "Statements about cultures are not statements about individuals" (Hofstede 1984, 58). In every country there is a wide range of personalities, so when it comes to interpersonal contact the generalised hypothesis might not apply. Therefore, an open-mindedness to other cultures should be developed to help us to not misattribute first impressions.

In the following section a brief introduction is given of the three countries involved in this study (Sweden, Japan and Australia) to identify some of their specific national and organisational cultural differences compared to other countries. By first looking at Hofstede and Bond's scores on Sweden, Japan and Australia, an attempt will be made to explain these by reference to the country's historical contexts, their economy, management style and business strategy. This introduction is meant to set the scene for the more in-depth discussion on management accounting and how it varies in different cultures.

Below in Figure 2.3 are the scores for Sweden, Japan and Australia according to IBM's international employee attitude survey, thereby permitting each country to be positioned on each of the five dimensions. Hofstede and Bond (1988) chose a scale in
such a way that the distance between the lowest- and the highest-scoring country is about 100 points, with 100 being the highest. There were 53 countries involved in the survey, so highest rank number is 1, and lowest is 53. For Confucian Dynamism the lowest rank number is 20. These scores are relative; it is the position on the dimensions that are important and not the exact index number.

### Figure 2.3:
Scores on five dimensions in IBM’s international employee attitude survey

<table>
<thead>
<tr>
<th></th>
<th>Sweden</th>
<th>Japan</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Power Distance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Index</td>
<td>31</td>
<td>54</td>
<td>36</td>
</tr>
<tr>
<td>Rank</td>
<td>47-48</td>
<td>33</td>
<td>41</td>
</tr>
<tr>
<td><strong>Individualism</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Index</td>
<td>71</td>
<td>46</td>
<td>90</td>
</tr>
<tr>
<td>Rank</td>
<td>10-11</td>
<td>22-23</td>
<td>2</td>
</tr>
<tr>
<td><strong>Masculinity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Index</td>
<td>5</td>
<td>95</td>
<td>61</td>
</tr>
<tr>
<td>Rank</td>
<td>52</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td><strong>Uncertainty Avoidance</strong></td>
<td>29</td>
<td>92</td>
<td>51</td>
</tr>
<tr>
<td>Rank</td>
<td>49-50</td>
<td>7</td>
<td>37</td>
</tr>
<tr>
<td><strong>Confucian Dynamism</strong></td>
<td>33</td>
<td>80</td>
<td>31</td>
</tr>
<tr>
<td>Rank</td>
<td>10</td>
<td>3</td>
<td>11-12</td>
</tr>
</tbody>
</table>

Source: Hofstede and Bond 1988, 4-21.

2.3.1 *Swedish cultural differences: a brief overview*

Compared to other countries, the Hofstede and Bond (1988) measures show that Sweden is:

- low on power distance (lower than all the major industrial nations)
- relatively high on individualism (lower than the Anglo-Saxon countries but high amongst the rest)
- low on masculinity (in fact no other country exhibits such a low value)
• low on uncertainty avoidance (lower than all the major industrial nations)
• relatively short term oriented

By looking at the relationship between culture and the historical context of Swedish business, management style and implications for business strategy, the main cultural differences shown in the above scores will be investigated. A more in-depth discussion of Swedish culture is still to come in Chapter 5.

2.3.1.1 Historical context of Swedish business

The Swedish economy owes much to a great number of technologically sophisticated companies founded around the turn of the century. Radical inventions or technological improvements in areas like light-house technology, centrifugal separation, high-voltage transmission, telephone and bearings formed the basis for the creation of companies such as AGA, Alfa-Laval, ASEA, Ericsson and SKF. In addition to technological advances, Swedish corporations also realised at an early stage the importance of modern management principles such as Taylorism. Taylorist principles provided the recipe for the success of car manufacturing companies such as Volvo. The limited Swedish domestic market resulted in early internationalisation to exploit the global opportunities of their products. Strong market positions were built thanks to skillful marketing of sophisticated products in markets that were busy re-establishing their positions after two world wars.

Forss et al. (1984, 30) state that Swedish companies have been successful due to technical superiority and not administrative excellence. This is, however, more myth than fact. It is very interesting to note that successful companies, such as Electrolux, Volvo and IKEA have been successful with “normal” products without any patent or
exclusive technology (Furusten & Kinch 1993, 7). It has, therefore, been suggested that a significant contribution to the success of Swedish companies is Swedish management style.

2.3.1.2 Management style

Due to Sweden’s small population, now approximately 8.5 million, and only two engineering schools, the majority of the international managers were recruited from a very small group of individuals. This provided the basis for a personal, informal management style. Swedish subsidiary managers in foreign countries were generally given a great deal of freedom to design their operations to suit local conditions, with control of the strategy of subsidiaries maintained largely through informal means. This is shown by Hofstede and Bond’s score on power distance. The management style that would fit these values would emphasise decentralisation, teamwork and a fair amount of daring projects. The low score on masculinity indicates the high value placed on good relations with the boss, cooperative relations, safe employment and living in a nice area, while a high score on individualism indicates high valuation of enough free time to pursue personal interests, freedom to organise your own work and how to handle a demanding job (Jönsson 1995, 5).

When it comes to leadership styles, Sweden is said to be one of the most Americanised countries in Europe (Lundén & Åsard 1992, 7). Most theories about leadership styles, as well as organisational theories and motivational theories, used in the West have been influenced by American models (Hofstede 1980/1990). In contrast to Lundén & Åsard, Morgan, Frost and Pondy (1983) claims leadership styles are universal and that there is a “managerial society” where decision-making and organising
is similar in all multinational corporations independent of the country in which the company is situated. Furusten and Kinch (1983), however, submitted a working paper showing that in Swedish foreign subsidiaries the leadership style is described by foreigners as informal, with a long and complex decision-making process in which conflicts are to be avoided. This would appear to strongly support the view that leadership is culturally related.

2.3.1.3 Implications of culture for business strategy

According to Hedlund and Åman (1984), the 'Swedish Model' of International Management changed due to growing sales volumes, more product diversity and increased complexity of operations. Stagnating global demand and increasingly competitive pressures forced corporations to improve performance by reducing slack and increasing efficiency, inducing tighter control of subsidiary performance. Acquisitions, rather than radical innovation, became the preferred mode to reach growth targets, thus reducing shared experience as a control mechanism. A new generation of managers, increasingly of non-Swedish origin, had a prominent effect on corporate cultures and common value systems. The foreign managers were very prone to accuse Swedish headquarters personnel of ‘softness’, ‘indecisiveness’, ‘slowness’, and ‘ambiguity’ (Forss et al. 1984).

2.3.2 Japanese cultural differences: a brief overview

For Japan, the Hofstede and Bond (1988) measures show the following values relative to other countries:

- moderately high on power distance
• low on individualism
• high on masculinity (in fact no other country exhibits such a high value)
• high on uncertainty avoidance (higher than most industrial countries)
• long term oriented

Again, looking at the relationship between culture and the historical context, management style and implications for business strategy, the above scores will be investigated.

2.3.2.1 Historical context of Japanese business

Many different theorists have argued that culture played a major role in the Japanese success story. After World War II Japan quickly established a solid reputation for quality, reliability, value, and service. With virtually no resources, no energy, and over 110 million people crowded in four small mountainous islands, Japan managed to achieve the highest growth rate, the lowest level of unemployment, and one of the best-paid and healthiest working populations in the world (Morgan 1986, 111). Japanese companies, with the assistance and encouragement of their government, have been an outstanding success in recent decades and today they include some of the most technologically advanced and efficient large companies in the world (Lawrence 1993, 28). Not only was the Japanese success unpredicted, but economists found it difficult to explain why Japan, together with Singapore, Taiwan, South Korea and Hong Kong, were so successful. For an explanation, Hofstede and Bond (1988, 6) turned their attention to the culture of the entire nation, hence their cultural link to an economic phenomena which they called Confucian Dynamism. Culture might be a necessary condition for economic growth, however, culture alone is not sufficient for such growth
to occur. Two other necessary conditions are the existence of a market and a political context that allows development. The first condition explains why Japan’s growth started only after the Second World War, when for the first time in history the conditions for a truly global market were fulfilled. The supportive political context was fulfilled with the interventionalist important role of the government.

The Japanese work ethic comes from Confucianism which was imported from China during the Tokugawa era around 500 BC. Confucianism teaches a respect for work, discipline and the ability to follow orders. Two religions which have also helped shape the national culture are Buddhism and Shintoism (Woronoff 1982). Although, Confucianism is not a religion, like Buddhism and Shintoism, they all represent a set of pragmatic rules for daily life, which is the foundation for the Japanese work ethic.

The relationships between organisations in the East follows from the different concept of the self, i.e. companies derive their identity from the group of companies they belong to. This is highly visible in the corporate structures in Japan, popularly referred to as *zaibatsu* and *keiretsu*. Zaibatsu refers to enterprise groupings among large independent firms usually in different industries, while keiretsu refers to the vertical link between large firms and small to medium-sized enterprises - usually a subcontracting relationship. The smaller companies in a keiretsu have a relationship to the larger companies similar to that of a child to a parent. The parent supports the growth of the child, and the child understands that its success is dependent on the success of the parent and others in the family. The roots of this distinction may be a characteristic of the Japanese familism or collectivism that stands in contrast to US individualism (Velayutham & Perera 1996, 74).

In Eastern countries, such as Japan, most property is family property. Business
enterprise is created as a familial life raft while investments must be based on kinship or clan affiliations (Kao 1993, 25). This helps explain the long-term orientation of Eastern businesses in contrast to the short-term focus adopted by businesses of the West.

2.3.2.2 Management style

Many Japanese management practices reflect Japanese culture. For example, considerable interest in quality circles in Japanese factories is a direct result of their reliance on the group decision process (Kelley et al. 1987). Open communication is encouraged, supported, and rewarded. Great emphasis is placed on continuous development of employee skills, with formal promotion being of secondary importance, at least during the initial career stages. Employees are evaluated on a multitude of criteria, often including group performance results, rather than on individual contributions. As a consequence, the work is structured in such a way that it may be carried out by groups operating with a great deal of autonomy (Cooper 1995, 111). The pronounced effect of Japanese culture on management and production practices has caused researchers to question whether Japanese management systems can be implemented successfully in other cultures.

Japanese production methods attempt to significantly reduce waste, inefficiency and errors from manufacturing through total quality control. To achieve this a combination of techniques are used, for example just-in-time methods and quality circles. For these techniques to work in a Western company, the foreign management style might require some changes to the Eastern management system (Thomas 1993).

When examining the work relations between Japanese employees and their organisations we find that they too are very different from those prevailing in the West.
The organisation is viewed as a group to which the employee belongs, rather than just a workplace comprising of separate individuals. The organisation for which individuals work is seen as an extension of their family, with employees often making lifelong commitments to the organisation (Lincoln 1990, 257).

2.3.2.3 Implications of culture for business strategy

So far discussion has focused primarily on the relationship between Japanese human resource management practices and employee commitment and productivity. However, several important organisational characteristics directly tied to the area of business strategy are also heavily influenced by the management style described above. First of all, the long-term socialisation of employees in combination with an articulated “distinct” company philosophy is conducive to the development of organisational culture emphasising competition and competitive spirit, although not between members of the organisation. The purpose of the organisation is to survive as a group, a task possible only through besting its current and potential rivals (Pucik & Hatvany 1993, 123).

Secondly, it is not, as often thought, superior planning that enables the Japanese to execute consistent business strategies. Rather, it is the absence of short-term incentives that may otherwise distract managers from pursuing long-term corporate objectives. Although bonuses are usually tied to current performance, there is no danger of any member of the organisation taking advantage of current circumstances at the expense of future goals since most employees are expected to remain in the organisation for most of their working lives. In addition, the reliance on the company’s well-being to provide in the future for individual welfare makes it easier to incorporate long-term
strategic objectives into the management of everyday operations (Pucik & Hatvany 1993, 123).

Thirdly, the value system of Japanese managers and executives places a premium on maintaining the corporation as a semi-permanent group of individuals. Therefore, the only way for Japanese companies to grow is from internal competitive strength. The strategic implications become clear when there is no shortcut to success except for concentrating on making a product which fits customers' needs and is cheaper and of better quality than the products of competitors. Under such conditions it is natural that production becomes a major strategic concern, resulting in an emphasis on continuous product and process innovation, on upgrading quality, and on lowering costs (Pucik & Hatvany 1993, 125).

Lastly, the nature of the competitive appraisal system in Japanese firms together with the rapid reception and dissemination of new ideas encourage innovation. The stereotype image of the Japanese is, however, as poor innovators constrained by a group desire to maintain consensus and harmony. Contrary to this image, there is clear evidence that the Japanese are innovative and probably innovate faster than most businesses in other countries. After all, computers or scanners were not invented in the United States (Pucik & Hatvany 1993, 126).

2.3.3 Australian cultural differences: a brief overview

For Australia, the Hofstede and Bond (1988) measures show the following values relative to other countries:

- low on power distance
- high on individualism
• moderately high on masculinity
• moderately low on uncertainty avoidance
• short term oriented

By looking at culture’s influence on the historical context of Australian business, management styles and implications for business strategy, the above scores will be investigated.

2.3.3.1 Historical context of Australian business

Australia is a geographically large country with a population of approximately 18 million. Although Australia is situated within the Asia-Pacific region, British traditions and practices characterise Australia to a significant extent. The influx of European migrants and of Asian refugees has produced a nation still substantially British in origin but becoming increasingly multiracial, driven by cultural as well as political differences. At the same time the emphasis in trade patterns has tended to move away from Europe toward countries of Australia’s own region, particularly Japan. There has been, however, a recent tilt toward American ways of doing things (Choi & Mueller 1992, 84).

Australians have a deeply rooted distrust of government regulation and bureaucratic reach. As a consequence, the private sector dominates the Australian economic system, with approximately ten thousand public companies and 750 thousand private companies (Choi & Mueller 1992, 85). The Australian society is dominated by large organisations, although 97% of all enterprises may be classified as small, that is having fewer than 10 employees. Over 50% of the workforce work for the remaining 3% of organisations (Australian Bureau of Statistics 1994-1995, no 1321).
Since the early 1980s, Australian business has undertaken considerable overseas expansion. Until that time virtually no company had any major overseas operations. If companies wanted to expand they generally considered expanding within Australia. By the end of the 1970s, Australia's economy started to open up after years of government control, protection and regulation. Also, the jumbo jet had reduced the cost of travel and large-scale and inexpensive data transmission became common. Fashions in business also changed from diversified operations to identifying competitive advantage and expertise in a few core products (Robbins & Barnwell 1994, 129).

2.3.3.2 Management style

During the 1980s the 'Australian model of business' was developed. This model constitutes a businesses response to take the expertise in core products into overseas markets, by either buying or setting up subsidiaries in other countries (Robbins & Barnwell 1994, 129). It was believed that one of the competitive advantages with the model is that innovations developed in one plant can be quickly transferred to another anywhere in the network of companies.

As shown by the low score on power distance, Australian managers are less likely to be concerned about working with "multiple bosses". Australian managers also prefer to work in flatter organisations, placing more importance on variety and adventure on the job and on personal and family life, compared to other countries, with less importance given to security of employment. This is shown by the high score on individualism (Callaghan & Dunwoodie 1995).

Australian managers generally appear to have a higher masculinity score, even though they put more trust in people compared to other managers in other countries.
This trait is a more feminine characteristic. Apart from the issue of trust, other items in Hofstede’s questionnaire show that Australians on average are higher on masculinity values, one of them being that Australian managers place less importance on cooperation between people working together. A low uncertainty avoidance score is reflected in the trust subordinates have in managers when a precise answer isn’t always needed. In terms of Confucian Dynamism, Australians are short term oriented because they place less importance on personal stability and respect for tradition (Callaghan & Dunwoodie 1995)

2.3.3.3 Implications of culture for business strategy

Many Australian and New Zealand companies which were in regulated industries or were government monopolies had very strong cultures. In many cases, although the level of efficiency has been disputed, these organisations recognised the importance of the ethic of service to the public. However, now when most of these organisations have been either deregulated or privatised, they must alter their way of doing things in order to accommodate change more readily. Layers of management have been cut, efficiency measures now have to be met, the old culture is seen as a liability and a new culture of cooperation and wider job skills and responsibilities had to be learnt very quickly. Due to the recession in Australia in the late 1980s and increased competition from overseas, companies have been forced to restructure to cut costs and become more responsive to customers, clients or competitors. Organisations are becoming flatter and more decentralised in their structure, and more efficient in their production.

As we have seen, the five aspects of culture (power distance, individualism,
masculinity, uncertainty avoidance, and Confucian dynamism) can have specific implications for the workplace. These are the issues which are of primary interest to comparative management researchers. They try to determine which effects on management practices are from organisational culture and which are from national culture (Kelley et al. 1987, 19). According to Bhagat and McQuaid (1982, 653), “culture has often served simply as a synonym for nation without any further conceptual grounding. In effect, national differences found in the characteristics of organizations or their members have been interpreted as cultural differences”.

This thesis is concerned with management accounting and culture. Recalling Figure 2.2, both national and organisational culture affect management accounting. So far the influence of national culture has been discussed. In the following section the development and status of organisational culture is examined.

2.4 Organisational culture

Organisational culture is defined by Hofstede (1987) as the programming shared by most members of an organisation in addition to national culture. Undoubtedly, an organisation’s culture is a lot more compact and homogeneous than the culture of a nation. Therefore, it can be more precisely detailed. As mentioned before, organisational rituals, heroes and symbols can easily be changed, and differ depending on the organisation. The cultural level of values, however, is more deeply-rooted and related to national culture which is reflected in the individuals of an organisation (Hofstede 1980).

The system of shared meanings, which is found in all organisations, is a set of key characteristics that the organisation values. Robbins (1991) summarised ten characteristics covering the essence of organisational culture; individual initiative, risk
tolerance, direction integration, management support, control, identity, reward system, conflict tolerance, and communication patterns. Each of these exist on a continuum from low to high. By appraising the organisation on these ten characteristics, Robbins argues that a complete picture of the organisation's culture can be formed. Organisational culture is concerned with how employees perceive the ten characteristics, not whether they like them or not. Organisational culture is therefore a descriptive term which differentiates it from the concept of job satisfaction which is evaluative.

Organisations have not always been seen as cultures. It is only during the last two decades that organisational theorists have begun to acknowledge culture in their studies. The traditional theory of organisations sees the organisation as a hard, concrete reality that can be managed in order to find the best way to control the workplace. The formal organisational structures were seen to control the performance of work tasks on a rational and continual basis (Burrell & Morgan 1979).

2.4.1 Cultural ideas in organisational studies

In the organisational culture literature it is believed that Barnard (1938) provided the first most significant theoretical roots for the study of cultural issues within organisations. Barnard's thinking provided an analytical base from which succeeding generations could construct more complex theoretical structures (Reed 1985). Barnard, however, retained the methodological point of view of the traditional theory of organisations (Reed 1985). For Barnard, communication among members, members' willingness to serve, and member-shared organisational purposes are the necessary elements of an organisation, the most important function of executives being to establish and maintain organisational value systems (1938, 82). This gives leaders symbolic roles.
Although Barnard’s writing does not contain the words ‘organisational cultures’, the aspects of organisational life which he studied have only recently been accepted as elements of organisational cultures by organisational theorists, such as Hofstede (1980) and Peters & Waterman (1982).

The origin of culture in management teaching and research as an independent variable affecting an employee’s attitudes and behaviour can be traced back fifty years to the notion of *institutionalisation*. Institutionalisation arises when an organisation takes on a life of its own, apart from any of its members, and acquires immortality (Selznick 1948, Weber 1947). Institutionalisation operates to produce common understandings among members about what is appropriate and, fundamentally, meaningful behaviour. So when an organisation takes on institutional permanence, acceptable modes of behaviour become self-evident to its members.

The dominant paradigm of organisational studies since its emergence, however, has been contingency theory. The greatest attraction of contingency theory is the framework it provides for the relationship between an organisation and its context. This is thought to provide a more holistic approach for designing organisational structure. Factors such as size, technology, economic and market conditions, and internal interdependencies prevailing between sub-units have been considered as contingent variables. In the most recent development of contingency theory-based organisational studies, culture has been included as a variable. Smircich (1983) and Smircich and Calas (1987) noted that within this research strand, cultures have been treated as internal or external contingent variables. As an external variable the emphasis has been on national culture, which involves the study of organisational variations across nation-cultural boundaries. The research concerning culture as an internal variable can be grouped into
two arrays. The first approach includes studies that investigate the relationship between organisational cultures and performances (e.g. Peters & Waterman 1982). Overall, this research believes in the hypothesis ‘the stronger the culture the better performance’. The second approach relies upon research investigating cultural differences amongst or within organisations (e.g. Hofstede 1990).

Contingency theory is a functionalist approach, with the functionalist organisations seen as goal attaining, distinctive, social units in which organisational life is formally programmed. This rigid, mechanistic view of organisations, however, has been criticised for providing a misleading conception of the relationship between an organisation and society (Morgan et al. 1983). By understating the importance of this relationship, organisations believed to be nothing but the solemn arrangement of work tasks, following rules, making decisions, and the pursuit of profit (Turner 1990, 85). Organisational culture is seen as a management tool, which managers can control through controlling communication practices, and thus influence organisational performance (Smircich & Calas 1987).

As a consequence of the functionalist approach, many managers and management consultants began to adopt new roles in the early and mid-1980s as corporate gurus and attempted to create new forms of corporate consciousness. It was proposed that there are good and bad cultures, that a strong organisational culture is essential for success and in making employees work harder (Morgan 1986, 138). Critics say that this trend is a potentially dangerous one, developing the art of management into a process of ideological control. Of course, management has always been to some extent an ideological practice, promoting appropriate attitudes, values, and norms as a means of motivating and controlling employees. What is new is the not-so-subtle way in which
ideological manipulation and control is being advocated as an essential managerial strategy. What must not be forgotten is that culture is an evolved form of social practice and not a distinct entity with clearly defined attributes, as many management theorists tend to view culture. Such a view is unduly mechanistic and gives rise to the idea that culture can be manipulated in an instrumental way. Managers may be able to influence the evolution of culture by being aware of the symbolic consequences of their actions but they can never control culture in the sense that many management writers advocate. Seeing organisational culture as a link between the way people in organisations work and high company performance was believed to be a functionalist tool (Frost et al. 1991, 1).

According to Hofstede (1990), the common practices of a company come from values rooted in the corporation’s leaders. Hofstede sees the relationship between founders’ values and their organisational cultures as a causal relationship. Unfortunately this functionalist view fails to deal with the cultural process appropriately. The active roles of organisational participants in shaping organisational realities are undermined, and culture is seen as ‘learned behaviour’ (Geertz 1993a). If you are an Australian company, there is something Australian in your practices. Likewise, if you are a Swedish company, there is something Swedish about your practices. This is the strength of the company which will keep it together (Hodgetts 1993, 56). For a multinational corporation to be successful the management should adjust the personality of the company to fit the local culture. Every company has to find its own mid-way between adapting and remaining itself, and every person who later joins will have to adapt to the organisation. “If the fit between their values and the organization’s values is too poor and they can’t be socialized, they will separate themselves or be separated from the
organization” (Hofstede 1985, 350).

What is missing from the above functionalist explanation is the account of how the process through which founders or other organisational members negotiate and interpret their experiences of their organisational world. Alternative paradigm researchers endeavour to overcome this deficiency and understand the way patterns of shared meaning sustain organised activity. The popularity of the alternative paradigms led to a weakening of the traditional contingency perspective by the late 1960s, after more than thirty years as the dominant paradigm (Reed 1985, Weick 1979). The research paradigm from here on shifted progressively from functionalist to alternative paradigms. Sociological philosophers such as Garfinkel, Foucault, Habermas and Giddens made the possible shift to alternative paradigms (Weick 1979). The idea of viewing organisations as cultures began to develop, and organisational actors were seen as actively shaping organisational existence (Burrell & Morgan 1979, Chua 1986). The alternative paradigms see the organisation as “complex patterns of human activity” (Morgan et al. 1983, 3).

2.4.2 Alternative paradigms or a new understanding of organisations

More than twenty years ago organisations were seen as a way to coordinate and control a group of people, through vertical levels, departments, authority relationships, and so forth (Robbins 1991, 572). Organisations, as we all know today, are a lot more than that. They have personalities too, just like individuals, and can be rigid or flexible, unfriendly or supportive, innovative or conservative. Organisational theorists in recent years have begun to acknowledge this by recognising the important role culture plays in organisations. Organisational culture is essentially the same thing as institutionalisation.
They are both concerned with understanding what makes up an organisation's culture and that, depending on how they are created and sustained, it will enhance our ability to explain and predict the behaviour of people at work.

One of the new paradigms to understanding organisational culture is the interpretivist approach. For *interpretivists*, social realities are constructed by human beings who create and sustain the social world of shared meaning through social interaction (Geertz 1993b, Burrell & Morgan 1979). As mentioned earlier in this chapter (in section 2.1), Geertz believes culture is an ordered system of meaning and symbols, in terms of which social interaction takes place (1993b, 12). Unlike the contingency approach, for the interpretivist, a “practical understanding in context cannot be reduced to a system of categories defined only in terms of their relations to each other” (Rabinow & Sullivan 1979, 3). Therefore, the move from functionalist to the interpretive perspective is not just a matter of redrawing the map, but an alternative to the principles of mapping: “the refuguration of social thought” (Rasyid 1995, 27). Chua sees the result of a change in perspective as the new insights which “may be gained which can potentially extend our knowledge of accounting in action within organizational and societal contexts (1986, 626)”.

To see an organisation as a culture means to understand it as a system of symbols and meanings (Geertz 1993a). The process of making symbols by people in an organisation can be seen as the process of creating organisational reality. Organisational realities, thus, are not external to human consciousness. This creational process is a process of enactment. The enactment view of culture, mentioned in 2.1, has enormous implications for how we understand organisations as cultural phenomena. The enactment view also emphasises that we must root our understanding of organisations in
the processes that produce systems of shared meaning. In order to understand an organisation's culture, it is necessary to uncover the different aspects of the reality-construction process. Here the organisational structure, rules, policies, goals, missions, job descriptions, standardised operating procedures, and management accounting are viewed as objective characteristics of an organisation; cultural artifacts that help shape the ongoing reality within an organisation. When looking at corporate culture from this perspective, every aspect of an organisation is rich in symbolic meaning. The weekly meeting or annual planning cycle, that everyone knows is a waste of time, assumes a new significance as a ritual serving various kinds of hidden functions. New insights on group functioning and leadership emerge, as does the ability to create a shared sense of reality (Morgan 1986, 133). Thus, by acknowledging the relationship between culture and organisations, new ways open for reinterpretation of many traditional managerial concepts and processes. We can also see that different leadership styles depend on the question of how reality is to be defined.

Viewing organisations as collections of symbols also means not to view something as "inside" or "outside". We are no longer looking at something that an organisation has, but looking at the process which makes it possible for an organisation to exist (Smircich 1983, Turner 1990). The dichotomy between "formal" and "informal" is thus no longer retained, since the concept of formal organisation is replaced by the conception of the organisation as a social construct. For interpretivists, organisations "have no external reality but are merely social creations and constructions emerging from actors making sense out of ongoing streams of actions and interactions" (Allaire & Firsirotu 1984, 208). "It is this enacted environment, and nothing else, that is worked upon by the processes of organising", the interpretivist maintaining that the "human
actor does not react to an environment but enacts it” (Weick 1979, 64). Therefore, every company enacts its environment. This is an ongoing process which then creates competitive environments and environmental turbulence for each company. As an example, the managers of American automobile companies actually contributed to create, what was then called, the “Japanese invasion”. The managers failed to respond to the American need for small cars and the managers of Toyota then came to fulfill the need. The message of this story is that the environments which the American managers face are actually their own creation (Rasyid 1995, 30-31).

Culture can be seen as an asset or liability. As an asset it can reduce an employee’s ambiguity while enhancing organisational commitment. Culture can, however, be a liability to an organisation, where the shared values are not in agreement with those that further the organisation’s effectiveness. This is most likely to occur when the organisation’s environment is undergoing rapid change, and the organisation’s culture may no longer be appropriate. Therefore, consistency of behaviour is an asset to an organisation when it faces a stable environment. It may, however, burden the organisation and make it difficult to respond to changes in society (Robbins 1991, 578).

In organisations there are often many different and competing value systems that create a mosaic of organisational realities, rather than a uniform corporate culture. For example, different professional groups may each have a different view of the world and of the nature of their organisation’s business. Accountants may subscribe to one kind of philosophy, and marketing people another. The frame of reference guiding development engineers may be different from the perspective of members of the production department. Each group may have developed its own specialised language and set of favoured concepts for formulating business priorities (Morgan 1986, 127). In academic
literature, this has been referred to as occupational culture.

Occupational culture is “the programming acquired by those exercising a distinct occupation”, such as accountants (Hofstede 1987, 2). Occupational culture differs from group culture in that it’s values and beliefs come from the occupation and its training, while group culture is the result of interaction among individuals who work together in a small group (Levinson & Asahi 1995, 55). It might seem surprising that culture can differ depending on your occupation. It has been shown, however, that accountants stress the *form* of information, whereas people in operating roles will stress the *content* (Hofstede 1978). The issue of “substance over form” has been a topic discussed among accountants, which shows that it is not in everyone’s culture to choose substance over form. More of the effect of culture on accounting, and the effect of accounting on different layers of culture, will be discussed in the next chapter.

Whilst there is a growing interest in organisational culture, the concept is still problematic and elusive. Frost *et al.* (1991, 7) states that:

Organisational culture researchers do not agree about what culture is or why it should be studied. They do not study the same phenomena, and they do not approach the phenomena they study from the same theoretical, epistemological, or methodological points of view. It has therefore been difficult to clarify what has been learned or how cultural studies contribute to other traditions of inquiry. No wonder, then, that research on organisational culture has sometimes been dismissed as a ‘dead end’, as unrelated to mainstream theory, or as a fad that has failed to deliver on its premises.

What is needed is a theoretical framework that can capture the major similarities and differences among the various approaches to the study of organisational cultures. Such a framework must not threaten the integrity of the different approaches by creating pressures toward assimilation. To this end, Smircich and Calas (1987) grouped the organisational culture literature along the lines of Burrell and Morgan’s (1979)
classification of sociological paradigms: functionalist, interpretive, radical structuralist, and radical humanist. Frost et al.’s study (1991) on the other hand studied the interpretive paradigm using Martin and Meyerson’s three cultural perspectives: integration, differentiation and fragmentation. The goal is to understand why these fundamental disagreements exist, rather than to eradicate them in some unifying metatheory. What is important is to see and understand organisational culture through several perspectives rather than a single one. Frost et al. (1991) believe the study of organisational culture is an ongoing open process, and an interaction of the investigator and the subject of inquiry.

Although it can been argued that Hofstede undermines the active roles which organisational participants have in shaping organisational realities, his four culture-based societal value dimensions still have many consequences for management practice. For example, both power distance and individualism describe and explain the type of leadership most likely to be effective in a country. The ideal leader in a culture in which power distance is small would be a resourceful democrat, compared to a “good father” figure in a country where power distance is large. In collectivist cultures, leadership should respect and encourage employees’ group loyalties, incentives should be given collectively, and their distribution should be left up to the group. In individualist cultures, people can be moved around as individuals, and incentives should be given to individuals (Hofstede & Bond 1988). People’s motivations are, on the other hand, more affected by masculinity and uncertainty avoidance. In a masculine culture, competition is more effective and personal risk more acceptable if uncertainty avoidance is low.

Hofstede’s dimensions are a good start to develop a framework for organisational cultures as well as national cultures. As we have seen, an organisation is
a much more compact and homogeneous entity than a nation, both in place and in time. Therefore, organisational cultures can be studied in much more detail. Values do differ from one organisation to the next, but with a lot of overlap because our values depend on a lot of other factors besides the organisation for which we work. Rituals, heroes, and symbols, on the other hand, vary much more among organisations than values.

2.5 Conclusion

In this chapter the concept of culture has been discussed. Hofstede’s four levels of the manifestations of culture (symbols, heroes, rituals and values) were used to explain and identify the difference between national and organisational cultures. National cultures can be looked upon using Hofstede and Hofstede & Bond’s five dimensions which are power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity, and Confusian dynamism. Although the dimensions were used in explaining national culture, they are also useful in the discussion of organisational culture, because both national and organisational cultures have an impact on the people in the organisation. Therefore, national culture must be taken into consideration if accurate predictions are to be made about organisational behaviour.

Companies that deal with foreign organisational cultures face the added need to understand, and work with, those different cultures, as well as adapting their existing ones. Instead of aiming for standardisation of culture in the expanding world of business, we can instead learn more about other cultures to increase our understanding and acceptance when we integrate with businesses from another culture, whether it is a different country or a different organisation.
In the next chapter culture and accounting will be brought together. As we shall see, financial accounting is very much related to national culture, and management accounting to organisational culture. This explains why a framework has been developed explaining the relationship between national culture and financial accounting only. What this thesis attempts to do is to look into the relationships between management accounting and culture and try and identify the effect management accounting has on organisational culture and how national and organisational culture affect management accounting.
3.1 Introduction

Only recently has there been an awareness of the importance of considering environmental factors when analysing accounting systems in different countries. This in turn has led to serious attempts at identifying both the relevant environmental factors and the mechanism by which such factors influence accounting. Here, culture is often considered to be one of the powerful environmental factors impacting upon the accounting system of a country. This is based on the broad premise that because accounting is a socio-technical activity it involves dealing with both human and non-human resources or techniques as well as with the interaction between the two. The technical aspect of accounting is, however, less culturally dependent than the human aspect, but since the two interact accounting cannot be culture free (Mathews & Perera 1993, 327). Hofstede (1987, 47) points to "...one of the great discoveries of the past decade: that accountants are human". It is only since accounting has come to be regarded as a means with which to transform the world that accounting has come to be accepted as a social and institutional practice. New ways of questioning accounting emerged through concern for how particular ways of calculating help transform the world.

This chapter will trace the development of a concern by accounting researchers for cultural influences on accounting. As previously mentioned in Chapter 2, culture can be studied on several levels. National culture is reflected in deeply-rooted values, while organisational and occupational cultures reside in the more flexible manifestations of symbols, heroes and rituals. Chapter 2 described how Hofstede (1980) and Hofstede and
Bond (1984) found five underlying dimensions of national value differences: power distance, uncertainty avoidance, individualism vs. collectivism, masculinity vs. femininity, and Confusian dynamism. These dimensions were constructed to be used as a tool for analysing differences in national culture. As we shall see in this chapter, financial accounting is very much related to national culture and thus has attracted most of the attentions of cultural researchers in accounting. The aim of such research has been either to clarify fundamental aspects of financial accounting or to explore the possibility of an international harmonisation of financial accounting (Cushing 1987, Gray 1988).

Many of the present controversial issues today in international accounting, such as accounting harmonisation and economic integration, have led to several attempts by researchers to develop a theoretical framework on the relationship between culture and accounting. The most significant attempt is Gray’s study (1985) which analysed the impact of culture on financial accounting practices. Gray uses Hofstede’s (1980) model of societal culture patterns, linking the four dimensions to financial accounting systems. The relationship between management accounting and culture is yet to receive the level of attention given to financial accounting. It has been argued that management accounting is associated mainly with its organisational and social context, which underpins the important role that management accounting plays in creating an organisational culture. Therefore, management accounting is said to be related more to organisational culture, rather than national culture.

Organisations have long been known to have cultural properties. However, as discussed in the previous chapter, the idea of viewing organisations as cultures is a relatively recent phenomenon. The operation of work in organisations is not purely technical-rational, but rather it is embedded in a cultural system of ideas and values in which action and artifacts are vested with different meanings (Dent 1991, 706).
Organisations create and sustain particular work customs, establish norms for proper and improper behaviour and performance, propagate stories and myths and are replete with rituals. By defining accounting, and more importantly management accounting, as a social and institutional practice the relationship with organisational culture becomes apparent.

This chapter will firstly look at the development of accounting from the traditional paradigm which treats accounting as a neutral technique, to the alternative paradigms which view accounting as a social and institutional practice. Secondly, this chapter will discuss different contributions to a framework for accounting and culture, with Gray’s (1985) framework studied in greater detail. To the present, there has been no serious attempt to develop a framework for analysing the impact of culture on management accounting. This issue will be introduced at the end of this chapter, and dealt with to a greater extent in Chapter 4.

3.2 The traditional instrumentalist approach to accounting research

The traditional paradigm, also called the traditional instrumentalist approach, scientific research methodology (Chua 1986) or structural functionalist (Burrell & Morgan 1979), treats accounting as a neutral technique or device that merely documents and reports the facts of economic reality. In accounting research, the instrumentalist approach draws upon positivist assumptions, which characterise accounting techniques solely as mechanisms which are designed to produce information that is useful to the organisation. The ontological assumptions of the positivist approach assume that the researcher exists separately from the reality which he/she is attempting to investigate (Chua 1986). This implies that accounting researchers do not influence the reality which
they study and that they are impartial observers of this reality. The data produced in such research is regarded as being free of value-laden statements.

In the early 1980s, empirically grounded studies started viewing accounting as a *culturally expressive symbol of rationality* (Berry *et al.* 1985). It is believed that organisations depend on a flow of resources for survival, with those organisations adopting rational management practices more likely to be rewarded (Dent 1991, 707). As a consequence of this view, accounting is often seen to be neutral in its effects within the organisation and as an aid to ‘rational’ financial decision-making. Accounting, therefore, on purpose had been uncoupled from organisations’ core technological activities. Some people still argue that accounting is really no more than a technique of book-keeping, and as such a service activity (Peasnell 1978) or a technical activity (Burchell *et al.* 1980) for business organisations. This view of accounting clearly neglects its societal nature.

Several accounting researchers have identified problems with the positivist approach to accounting. Critics have cited the positivist’s assumption that accountants play a neutral role in society (as providers of information for decision making) as being a value judgment. Tinker, Merino and Neimark (1982) and Gaffikin (1988) identify the impossibility of social neutrality in any study because the researcher cannot ignore his/her previous life experiences. Hofstede (as noted in Chapter 2) also showed this. At a broader level, Hines (1988) asserts that as humans we become constructors of reality and that any attempt to assume otherwise is misleading. At a more detailed level, Neimark and Tinker (1986) recognise a number of shortcomings of the traditional approach to accounting research. Firstly, there is an absence of feedback mechanisms. Secondly, the view that the organisation and its environment are separate entities fails to acknowledge that the organisation is part of the environment, and that the environment
influences the internal structure of social relations. Thirdly, the environment itself is incompletely specified. In contingency theories, the only description of the environment is in terms of its stability or turbulence, homogeneity or diversity, its scarcity or munificence, its uncertainty or complicity, clustered or random. Fourthly, performance is viewed as non-problematic, since the focus of the study is on the organisation. Finally, reinforcing Hines' criticism, the traditional approach is grounded in a 'positivistic' epistemology which fails to recognise both the social reality and the social construction of that reality.

A major criticism of positivist or instrumental approaches to the study of accounting is the assumption that behaviour is rational in the economic sense of the word. This, however, does not take into account the most fundamental characteristic of human behaviour which is that it is dependent on a multitude of factors of which rationality is just one. It cannot be automatically assumed that humans are always trying to maximise their financial utility. One of the reasons the empiricists adopted the notion of maximising utility in terms of a monetary figure is that, for reasons outlined earlier, numbers are assumed to be much more objective than any subjective (and by implication, non-quantifiable) human motivation. The use of quantitative methods for research limits the researcher to those aspects of accounting which can be quantified. This may implicitly ignore the importance of qualitative studies that investigate other aspects of accounting and the behaviour of accountants and other groups which they affect. These criticisms have led to the establishment of new approaches which view accounting, and in particular management accounting, as more than an objective activity which is concerned with 'what is'.

Accounting involves planning, coordinating, controlling, and motivating the organisation's goals. Unfortunately, these activities are quite abstract, and provide little
help when deciding what accounting should be (Hopwood 1989, 144). Traditionally, the functions of accounting have been seen to exist independently from the organisation's goals, but with the introduction of alternative paradigms, accounting practice is now accepted by a growing body of researchers as playing a more active role in creating organisational goals (Hopwood 1989, 145).

The traditional view of accounting uses accounting numbers as tools of rational analysis (Teoh & Funnell 1993, 6). The Japanese have proved the opposite by integrating with rational decision-making the interplay of employee behaviour and attitudes. One of the major deficiencies of business in the West today is a pre-occupation with rational analysis. There has arisen an almost obsessive reliance on numbers to make decisions which affects the long term perspective needed for businesses today to be successful (Peters and Waterman 1982). Too often in the past management information has been used in a short sighted fashion. The fallible objectivity and neutrality of management accounting numbers should not give the information coming from management accounting an unwarranted and undeserved level of acceptability and legitimacy (Teoh and Funnell 1993, 7). It is important to remember that accounting numbers only tell part of the story, the rest will depend on adopting a social and political approach.

3.3 Accounting as a social and institutional practice

Only recently has the field of accounting been significantly opened up, enriched and extended through an engagement with ideas drawn from varieties of post-positivist social theory (Morgan & Willmott 1993, 3). The majority of researchers have during the past two decades begun to accept that accounting is a social and institutional practice. Scott (1939), however, was five decades before his time when he wrote his book “The
Cultural Significance of Accounts”. Two criteria directed his conclusions: discussions of social phenomena would be conducted with an emphasis upon the objective point of view; and culture is evolutionary in nature. He strongly believed the development of accounting went hand-in-hand with the evolution of culture.

In 1968 Beazley, Jr. argued that more emphasis should be placed on cross-cultural aspects of the operation of accountants in different environments to increase understanding of why accountants behave differently, and to understand that different is not necessarily synonymous with inferior (1968, 7). After a slow start, accounting researchers have now started to realise that progress in international accounting does not necessarily lie in the direction of greater uniformity in international accounting practices, but rather that there may be good and sound reasons why there should be at least some diversity in international accounting practices (Abel 1972, 30).

The people factor did not receive any noteworthy attention until the beginning of the 1980s when behavioural accounting research became popular (Macintosh 1994). Behavioural accounting deals with the effects of accounting systems on people, and the effects of people on accounting systems, using models from psychology and social psychology (Puxty 1992, 7). With behavioural accounting, technical procedures of production, accounting and personnel selection became part of institutional processes. The organisation was seen as rational, responsible and modern, which included accounting as part of the institutionalised structure of society. Behavioural accounting contributed to a significant broadening of the accounting research, and helped reinforce and elaborate the already emerging shift in focus away from accounting viewed as a functional and neutral response to organisational imperatives. As a consequence, the intellectual case for accounting research moved beyond the confines of the firm and the
organisation, to include all aspects of accounting as a social and institutional practice (Miller 1994, 10-13).

The new emerging view of accounting is a multistrata perspective, which begins from the notion that accounting is a measurement technology, and proceeds to recognise the effects of accounting on individuals, organisations and society (Flamholtz 1980, 1). Today accounting is seen as a set of practices that affect the type of world we live in, the social reality, the way in which we understand the choices open to business undertakings and individuals, and the way we manage and organise activities. Accounting has therefore come to be regarded as a social and institutional practice (Miller 1994, 1).

The study of accounting has become very similar to that of social science, in the sense that both analyse practice. Although the embeddedness of accounting practices in the social and organisational contexts of their development and application is readily acknowledged by practitioners who are obliged to make accounting contextually relevant, it is widely overlooked by many accounting academics and ideologues of the accountancy profession (Morgan & Willmott 1993, 4). Since 1980, researchers have therefore sought to investigate the actual practice of accounting and answer the question - what roles does accounting play in organisations? After identifying and classifying different roles derived from observations of what accounting does in organisations, Chua (1988, 18) argues that accounting does not just reflect an economic reality or reproduce societal norms, it actively shapes that reality.

With the intellectual ‘borrowing’ that has occurred in accounting research from social and political thought, studies have become more pluralistic (Laughlin 1995, 69). As a consequence, accounting is no longer seen as a passive, neutral observer but instead as a practice with many different roles that reflect economic reality and reproduce societal norms. There are, however, shortcomings of viewing accounting as a
social construct, such as the inadequacies of accounting in practice and the lack of ability to perceive the significance of accounting in a societal context. It is obvious that this social and political perspective of accounting also has to be integrated into the practice of accounting.

By looking at accounting from a symbolic aspect, Dent (1991) found that in a railway company the new emerging accounting practices produced a new culture in the organisation. Notions of costliness, efficiency, profitability, earnings-per-share and so forth, actively constructed particular definitions of reality. Rather than being kept at arm’s length, uncoupled from an organisation’s core technological activities, accounting can interfuse with organisational settings. This suggests the possibility of a more intimate involvement of accounting in organisational cultures (Dent 1991). In some organisations, accounting is centrally involved in work rituals where financial achievement is celebrated and budgets are compulsory. In others, accounting is incidental, perhaps existing as a practice, but with no particular significance. In other organisations, risk taking is valued only if successful in financial terms. Arguably, the multi-faceted interplay of accounting with an organisation’s cultural and technical systems is under-researched.

Whilst there is a growing interest in accounting symbols, the area has also been perceived as problematic. It is understandable that any attempts to understand concepts such as symbols or cultures will face complexities and ambiguities. In anthropology (where they come from), the concepts are still problematic. Cultural anthropologists have diverse and complex theories of culture, as shown in Chapter 2. The same problem is apparent in organisational research concerning organisational culture. Definitions differ in theoretical, epistemological and methodological points of view (Frost et al. 1991). There is a necessity, however, for a researcher to choose a particular theoretical
and methodological perspective to “set the scene” for her/his own research endeavour (Gaffikin 1989, 14). Whichever methodology to which a researcher will turn, for whatever reason, it should be remembered that there will be no single perspective that could claim that its application would be able to represent ‘the full texture of reality’ (Morgan 1986, Laughlin 1995).

The alternative approaches in accounting research have adopted different ontological and epistemological assumptions as compared to the positivist approach. By making such assumptions, the alternative research paradigm hopes to overcome the philosophical deficiencies of the empirical approaches. As mentioned in Chapter 2, Burrell and Morgan (1979) identify three alternative approaches for sociological paradigms: interpretivist’, ‘radical structuralist’ and ‘radical humanist’. Roslender (1996) has made similar categorisations of the methodological approaches in management accounting research. He identifies four alternative approaches: ‘interactionist perspective’, ‘labour process perspective’, ‘critical theory’, and ‘the Focauldian perspective’. Chua (1986) also makes a categorisation of accounting research paradigms. She consolidates the ‘radical structuralist’ and ‘radical humanist’ approaches of Burrell and Morgan (1979) into the ‘critical approach’. Thus, Chua’s alternative methodological approaches are ‘interpretive’ and ‘critical’. The alternative paradigms are heavily represented in articles published in the journal Accounting, Organization and Society.

For interpretivist accounting researchers, social and organisational realities are the products of subjective and inter-subjective experiences in which accounting and accountants play an active role in shaping and making sense of the organisation (Chua 1988). By this view, the researchers focus on how the process of social interaction occurs in organisations, and how accounting is implicated in the process. Interpretivist
researchers focus on the *symbolic* aspect of accounting. Here, accounting is regarded as a social intervention rather than a "rational" reflection of technical reality. Hariman sees the distinction between interpretive and functionalist paradigms enshrined by the distinction between idealism and materialism (1990, 46). He even goes as far as stating that the functionalist matrix epitomises Western management accounting, and the interpretive summarises Japanese management accounting. This will be shown in more detail in Chapter 4.

For critical accounting researchers many of the major developments have been within management accounting. Roslender (1996) sees critical accounting as the third phase in the social scientisation of the management accounting discipline. The first phase occurred in the 1950s with the adoption of a range of social and industrial psychological insights, giving rise to the behavioural accounting tradition. In the early 1970s a more widely focused organisational tradition emerged, one heavily reliant on systems and contingency theories. The move from an individual to an organisational perspective was underpinned by a greater emphasis on sociological insights. Sociology continued to play a major role in the third, critical accounting phase, reflecting a shift in emphasis from an organisational to a more social theoretical perspective on accounting. Critical accounting embraces a range of ways of seeing, particularly in the case of management accounting. It contrasts the positivistic approach in issues such as meaning rather than function, process rather than structure, action rather than system, understanding rather than prediction, and with case studies rather than testing theories (Roslender 1996, 540). Congruent with the socialisation of management accounting is the research of culture's effect on management accounting. This will be discussed in more detail in Chapter 4.
Velayutham and Perera (1996) see accounting as a socio-technical activity in which peoples’ values and patterns of thinking play an important part. They argue that these differences are related to different metaphysical notions of self and freedom, which provide the basis for the development of cultural values in a particular society, such as those identified by Hofstede (1980) and Hofstede and Bond (1988). Hofstede and Bond’s five dimensions are a powerful illustration of how the phenomenon of culture can affect our daily practices and also the theories we develop to explain our practices.

One of the significant outcomes of research endeavours in the comparative analysis of accounting in different countries has been an enhanced awareness of the importance of environmental factors affecting a country’s accounting system. Since the early eighties culture has been considered a significant environmental factor in accounting, which deals with both human and non-human resources and techniques and the interaction between the two. Although there is an awareness of the relationship between accounting and culture, the impact of culture upon management accounting has yet to be established in a theoretical framework.

3.4 Towards a theoretical framework

While prior research has shown that patterns of accounting differ between countries and that the development of national systems of accounting tends to be a function of environmental factors particular to each country, it is a matter of some controversy as to the identification of the patterns and the influential factors involved. In particular, the significance of cultural factors has yet to be clarified and assessed (Gray 1985, 1).
Most of what has been written on the subject of culture and accounting has been propositions without adequate analysis, or of non-generalisable case studies (Mathews & Perera 1993). There has been no shortage of discussion in the accounting literature about the factors influencing the accounting development in individual countries (Cushing 1987, Nobes & Parker 1985, Choi & Mueller 1984, Arpan & Radebaugh 1985, Perera 1989, Gray 1985). There has also been a growing realisation that fundamentally different financial accounting patterns exist, and that this may have significant implications for international harmonisation and the promotion of economic integration. It has been argued that the difficulty of international accounting harmonisation is because the purpose is cultural not technical. The content of accounting reports in different countries has been found to be indicative of local history and convention (Hofstede 1985). It is clear that cross-cultural behavioural research in accounting is likely to provide some explanation about why there are differences in accounting techniques and practices between countries.

Furthermore, it has been recognised that the identification of patterns may be useful in permitting a better understanding of the potential for change given any change in environmental factors. Policy-makers may also be in a better position to predict problems that a country may be likely to face and identify solutions which may be feasible given the experience of countries with similar development patterns. An understanding of how external environment, institutional structure, and cultural factors affect cross-national accounting diversity can be useful in efforts to reduce that diversity and enhance the comparability of accounting information worldwide. Most of the studies within this area have attempted to classify countries by accounting practices. The primary result of these studies has been to establish on an ongoing basis the continued diversity of financial reporting practices across countries. Although research efforts are
useful in empirically establishing some connection between the environment and accounting practice, they have not provided or tested a theoretical framework which explains how environmental factors affect cross-national accounting diversity.

Research efforts in the area of international comparative financial accounting tends to approach the international classification of accounting systems from two major directions. Firstly, there is the deductive approach whereby relevant environmental factors are identified and, by linking these to national accounting practices, international classifications or development patterns are proposed (e.g., Mueller 1968, Nobes 1983). Secondly, there is the inductive approach whereby accounting practices are analysed, development patterns identified, and explanations proposed with reference to a variety of economic, social, political and cultural factors (e.g., Frank 1979, Nair & Frank 1980).

In regard to the deductive approach to accounting classification, the environmental analysis by Mueller (1968) still provides a useful starting point. Mueller identified four distinct approaches to accounting development in Western nations with market-oriented economic systems. Cultural factors received no explicit recognition, however, and were presumably subsumed in the set of environmental factors identified. Mueller’s analysis was adapted and extended by Nobes (1983) who based his classification on an evolutionary approach to the identification of measurement practices in developed western nations. However, similar to Mueller, no explicit mention was made of cultural factors. The deductive studies do not attempt to develop a formal theory but rather to arrive at an accurate description of what the world appears to be (Doupnik & Salter 1995, 190).

Perhaps the most important contribution of the inductive approach was by Nair and Frank (1980) who carried out a statistical analysis of accounting practices in 44 countries. They hypothesised that cultural and economic variables might be more
closely associated with disclosure practices and trading variables more closely associated with measurement practices. The empirical results, using factor analysis applied to individual practices, showed that it was possible to identify five groupings of countries in terms of measurement practices, and seven in terms of disclosure practices. An attempt was then made to assess the relationship of the different groups with a number of culture and economic variables, but the hypothesis was not supported. It is interesting to note here that the use of language, as a cultural variable, was perceived to capture similarities in legal systems which were thought to be particularly important in the determination of disclosure patterns (Gray 1985, 5). The primary result of the inductive studies has been to establish an ongoing basis for the continued diversity of financial reporting practices across countries.

As has been described above, most of the studies have come up with only very broad country groupings or accounting patterns within the field of financial accounting. At the same time, only very general relationships between environmental factors and financial accounting have been established, which often lack proper explanation (Gray 1985, 5). The significance of culture in this context is far from clear. Therefore, it might be interesting to look at some of the developments in the managerial literature relating to cultural differences.

As already mentioned in Chapter 2, Hofstede (1980, 1983, 1984) carried out an extensive study of international differences in work-related values in the context of a multinational corporation. Hofstede (1980) identified four value dimensions: power distance, uncertainty avoidance, individualism, and masculinity. Having compiled country indices on each of these dimensions, Hofstede then identified clusters of countries which may be termed culture areas (see Appendix 2). “If these country groupings do in fact represent culture areas and if cultural value orientations influence
accounting practices then it may be hypothesised that there should be a relatively close match between culture clusters and accounting clusters” (Gray 1985, 9). There is, however, a possibility that external influences, such as a country’s colonial past or the dominant presence of multinational corporations, may have resulted in a mismatch between the financial reporting systems and the local culture.

Hofstede’s culture groupings can easily be compared to Nobes’ (1983), despite the fact that Nobes concentrated on 14 Westernised countries (see Appendix 3). Nobes divided the countries into micro-based (Business economics and Business practice) versus macro-based (Continental and Government economics) instead of culture areas as Hofstede used. The work of Nair and Frank (1980), on the other hand, provides only mixed results. So far as measurement is concerned, there is certainly some consistency with culture areas (see Appendix 4). In the case of disclosure, Nair and Frank received quite different results from Hofstede (see Appendix 5). These results may suggest that there are doubts about the reliability of the data and methods of empirical analysis used. Nobes’ structural approach to the assessment of country differences seems likely to be more reliable.

What is still missing in the discussion of cultural influences on accounting is a theoretical framework by which the impact of culture on accounting can be explained and predicted.

3.4.1 A theoretical framework of financial accounting development

Schweikart (1986) attempted to develop a theory of international accounting within the general framework of contingency theory. In his financial accounting model, the environment (education, economic, political, social) is seen as an external contingency acting on institutional structure (e.g., corporations, stock exchanges, and
regulatory agencies) and decision makers (e.g., investors and lenders). The environment provides the types of institutions and these institutions, within a nation’s cultural framework, provide information to the public for decision-making purposes. Changes in the external environment may change the decision environment causing decision-makers to put pressure on the institutional structure to provide more relevant information (Doupnik & Salter 1995, 190).

Harrison and McKinnon (1986) developed a framework which attempts to explain the process of change in a society’s accounting system. The process of corporate reporting regulation is viewed as a social system and change analysis is used to determine the essential properties of such a system. The framework allows examination of the system’s norms and values, the nature of its interdependencies both internally and with other social systems, the factors to which the system is especially sensitive, and the way in which culture influences the form and functioning of the system’s elements.

Robbins (1991) hypothesises and demonstrates that the process of accounting change involves translating accounting needs into a form that permits discourse with other systems. This process, by moving accounting issues into the wider social, political, and economic realm, allows accounting to assess its role, select options for change, and, in turn, influence societal decisions. The ability to translate accounting to wider issues appears to be a cultural one (Doupnik & Salter 1995, 191).

Arpan and Radebaugh (1985) made a useful contribution in identifying a set of specific societal values likely to be directly associated with accounting practices. The societal values they identified are conservatism, secrecy, attitudes towards business and attitudes towards the accounting profession. They do not, however, provide any systematic analysis of the relationship between these factors and accounting practices (Perera 1989, 46).
Gray's study (1985) has been the most significant attempt to develop a theoretical framework for analysing the impact of culture on financial accounting practices. Gray specifically explored the extent to which international differences in corporate financial reporting systems may be related to and explained by differences in cultural factors. In attempting to do so, Gray identified the mechanisms by which values at the societal levels are related to the accounting subculture which directly influence accounting practice. Gray uses an adaptation and extension of the model relating to the stabilising of societal culture patterns proposed by Hofstede (1980, 27).
In this model, societal values are determined by ecological influences modified by external factors such as international trade and investment, conquest and the forces of nature. In turn, societal values have institutional consequences in the form of the legal system, the political system, the nature of capital markets, the pattern of corporate ownership and so on (see Figure 3.1 above). These institutions reinforce both ecological influences and societal values through the level of accounting subculture. Accordingly, the value systems of accountants may be expected to be related to and derived from
societal values with special reference to managerial or work-related values. Accounting values will, in turn, impact on accounting systems (Gray 1985, 11).

Gray further proposes that if Hofstede's four value dimensions are correctly identified, then it should be possible to establish their relationship to accounting values. If such a relationship exists then a link between societal values and accounting systems can be established and the influence of culture assessed. Gray suggests that there are at least four significant accounting value dimensions which impact on financial reporting systems used in practice. They are:

1. **Professionalism.** This refers to the situation where there is a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation, as opposed to compliance with prescriptive legal requirements and statutory control. The degree of professionalism preferred in an accounting subculture would influence the nature of authority for the accounting system. Accountants are perceived to adopt professional judgments to a greater or lesser extent everywhere in the world. This issue has led to controversy in many Western countries; whether the accounting profession should be subject to public regulation or be permitted to retain control over accounting standards as a matter for private self-regulation (Gray 1985, 13).

The development of professional associations has a long history but they are much more firmly established in countries such as the USA and the UK than in some of the Continental European countries and in many of the less developed countries (Gray 1988, 8). In Anglo-Saxon countries, the concept of presenting 'a true and fair view' of a company's financial position and results depend heavily on the judgment of the accountant as an independent professional adviser. This applies to the extent that accounting information is additional to, and sometimes contrary to, what is specifically
required by law. In Germany, on the other hand, the professional accountant's role is primarily concerned with the implementation of relatively prescriptive and detailed legal requirements. In Japan, standard setting emphasises conformity to the Commercial Code, in line with Japanese acceptance of legal authority. This differs from US standard setting, which is a function of private and public bodies combining professional and legalistic approaches where the AICPA and SEC are the enforcement authorities for adherence to US accounting standards. In Japan, the Ministry of Finance delegates disciplinary authority to the Japanese Institute of CPAs (JICPA) and the Stock Exchange (Bloom et al. 1994, 272).

2. **Uniformity.** Uniformity exists where there is a preference for the maintenance of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies. The degree of uniformity preferred in an accounting subculture would have an effect on the manner in which the accounting system is applied. Attitudes about uniformity, consistency or comparability are incorporated as a fundamental feature of accounting principles worldwide. This is a value which is open to different interpretations ranging from a relatively strict inter-company and inter-temporal uniformity, to consistency within companies over time, to relative flexibility of accounting practices to suit the circumstances of individual companies (Gray 1985, 14). In France, for example, a uniform accounting plan has long been in operation, whereas in the UK and the US there is more concern with inter-temporal consistency and inter-company comparability subject to perceived need for flexibility (Gray 1985, 15).

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3. *Conservatism*. Conservatism refers to support for a prudent and cautious approach to measurement so as to cope with the uncertainty of future events. The amount of conservatism preferred in an accounting subculture would influence the measurement practices used. Conservatism is arguably “the most ancient and probably the most pervasive principle of accounting valuation” (Sterling 1967, 110). Conservatism in asset measurement and the reporting of profits is perceived as a fundamental attitude of accountants the world over. Countries such as France and Germany have taken a strong conservative approach, whereas the USA and the UK accountants have a less conservative attitude (Choi & Mueller 1992, 84-127).

4. *Secrecy*. Secrecy is pronounced where there is support for confidentiality and the restriction of information about the business to only those who are closely involved with its management and financing. The degree of secrecy preferred in an accounting subculture would influence the extent of the information disclosed in accounting reports. It would seem to be that secrecy stems as much from management as it does from the accountant owing to the influence of management on the quantity of information disclosed to outsiders. Secrecy, or confidentiality, in business relationships is, nevertheless, a fundamental professional accounting attitude. Secrecy is related to conservatism in the sense that both imply a cautious approach to corporate financial reporting. The extent of secrecy varies across countries from low levels of disclosure in contrast to countries with high regulation on disclosure.

Gray found strong supporting evidence that these accounting value dimensions are related to societal values. *Professionalism* would seem to be related to the societal values of individualism and uncertainty avoidance in particular. A strong positive relationship with individualism seems likely, following from the emphasis on independence and the importance placed on personal opinion. At the same time, there
would seem to be a strong negative relationship with uncertainty avoidance, following from the inherent flexibility of professional judgments (Gray 1985, 13). **Uniformity** seems to have a strong positive relationship with uncertainty avoidance, consistent with an emphasis on rules and regulations, the search for ultimate truths and an intolerance of different approaches. This is moderately supported by a relationship with the power distance dimension which emphasises order and coercion. At the same time, there is a strong negative relationship between uniformity and individualism, with the latter's emphasis on independence and freedom of expression and behaviour (Gray 1985, 15).

**Conservatism** has a strong positive relationship with uncertainty avoidance, shown by the perceived need to adopt a cautious approach to cope with the uncertainty of future events and thereby reduce anxiety and stress. This is moderately supported by the power distance relationship with its concern for order. Similar to the uniformity dimension, there is likely to be a strong negative relationship between conservatism and individualism which tends to be associated with increased flexibility. This is moderately supported to by the masculinity dimension which emphasised performance and material success (Gray 1985, 16). **Secrecy** was found to have a strong positive relationship with uncertainty avoidance, in line with the perceived need to avoid conflict and competition and to preserve security. This is moderately supported by the power distance relationship in that in a hierarchical society outsiders are perceived to be a threat and so not to be trusted with information about the business. At the same time, there is likely to be a strong negative relationship with individualism in that there will tend to be a greater response to external influences compared to family or ‘collectivist’ loyalties. There may also be a moderate positive relationship with masculinity to the extent that the machismo ideal may serve to promote secrecy compared to a more feminine approach which may encourage the disclosure of information.
As explained above, values of accounting subculture are likely to influence certain aspects of accounting practice, namely: authority for accounting systems (professionalism), their force of application (uniformity), the measurement practices used (conservatism), and the extent of the information disclosed (secrecy). However, any given aspect of accounting practice may be influenced by more than one accounting value (Mathews & Perera 1993, 332). For example, the extent of disclosure is likely to be influenced not only by the degree of secrecy, but also by the degree of conservatism, uniformity and professionalism preferred in an accounting subculture. The higher the degree of conservatism, the more prudence will be preferred to disclosure; the higher the degree of uniformity, the more emphasis placed on compliance rather than disclosure. Therefore, the extent of disclosure in financial reports would seem to differ between countries in line with differences in value orientations of the preparers of those reports. As seen in Figure 3.2, the associations between societal values and accounting values are complex. Focusing on the relationship between societal values and the accounting subculture, Matthew and Perera (1993, 334) stated a series of specific hypotheses about those relationships:
1. The greater the individualism and the smaller the uncertainty avoidance within a society, then the greater the professionalism (or the smaller the uniformity) exhibited within an accounting subculture.  

Corollary

2. The less the individualism and the greater the uncertainty avoidance within a society, then the less the professionalism (or the greater the uniformity) exhibited within an accounting subculture.

3. The greater the uncertainty avoidance and the less the individualism within a society, then the greater the conservatism exhibited within an accounting subculture.  

Corollary

4. The smaller the uncertainty avoidance and greater the individualism within a society, then the smaller the conservatism exhibited within an accounting system.

5. The greater the uncertainty avoidance and the less the individualism within a society, then the greater the secrecy exhibited within an accounting subculture.  

Corollary

6. The smaller the uncertainty avoidance and greater the individualism within a society, then the smaller the secrecy exhibited within an accounting subculture.

According to Gray, hypothetical country groupings were identified following Hofstede's culture groupings based on a combination of relevant dimensions. A summary has been made for the purpose of this study of Sweden, Japan and Australia.

Figure 3.3: Hypothetical country groupings for accounting value dimensions following Hofstede's culture groupings.

<table>
<thead>
<tr>
<th></th>
<th>Professionalism groupings</th>
<th>Uniformity groupings</th>
<th>Conservatism groupings</th>
<th>Secrecy groupings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sweden</strong></td>
<td>Medium (II)</td>
<td>Weak (IV)</td>
<td>Weak (IV)</td>
<td>Low to Medium (III)</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>Low (III)</td>
<td>Strong (I)</td>
<td>Strong (I)</td>
<td>High (I)</td>
</tr>
<tr>
<td><strong>Australia</strong></td>
<td>High (I)</td>
<td>Weak (IV)</td>
<td>Weak (IV)</td>
<td>Low (IV)</td>
</tr>
</tbody>
</table>

Source: Gray 1985, 31-40.

Doupnik and Salter (1995) carried out an empirical test on the relationship between the accounting practices of countries and a set of environmental factors and
cultural dimensions hypothesised as relevant elements. A general model of accounting development was formulated by using various frameworks (Schweikart 1986, Harrison & McKinnon 1986, Robbins 1991, Gray 1988, and Hofstede 1980). From this model a logical hypothesis was developed stating that if the external environment, institutional structure, and/or cultural norms and values differ across countries, then it is likely that existing accounting practices will differ across countries as well. The corollary is similar to Gray's: that countries with similar environments and cultures should have similar accounting practices (Doupnik & Salter 1995, 194). A survey approach was used covering both disclosure and measurement issues, covering 50 countries. The three elements of the model (a society's external environment, cultural norms and values, and institutional structures), were found to have significant explanatory power in discriminating across countries. They also found that a country's legal system and accounting system have a strong relationship.

In contrast to the attention devoted by accounting researchers to financial accounting, a framework for the cultural influences on management accounting has still not been developed. It is, however, believed that management accounting could benefit from having a theoretical framework by which the impact of culture can be explained and measured. The purpose of the next section is to illustrate the development of management accounting paradigms and a potential theoretical framework. It was not until accounting was recognised as a social and institutional practice that accounting, including management accounting, was recognised as being influenced by culture. In chapter 4 the relationship between culture and management accounting on a national and organisational level will be discussed.
3.4.2 Theoretical perspectives on management accounting and culture

This section will discuss the relationship between management accounting and culture in theory. Firstly, the development of this relationship will be the primary concern. Secondly, a simple model of the effect of the socio-economic environment and organisational culture on management accounting systems will be explained. Lastly the development of a theoretical framework for management accounting systems and culture will be examined. The practical consequences of this relationship will be the principal objective of Chapter 4.

Kaplan (1987) in his paper makes a distinction between Academic Management Accounting (AMA) and Organisational Management Accounting (OMA). Management accounting and culture is an issue covered in OMA. Kaplan argues there is a distinctive difference between the two. AMA is within the positivistic paradigm, and assumes a simplified setting of a firm, and analyses all the processes in the organisation such as the decision-making process and controlling process. OMA, on the other hand, reflects a more alternative paradigm and looks at an organisation with all its complexities, including issues such as internal and external environment and the design of a management accounting system. The AMA field is mature in the sense that its fundamental concepts and paradigms have existed for decades. OMA, on the contrary, is an emerging field which researchers are just beginning to define, much less understand. Issues are covered which actually confront the managers of contemporary organisations in the design and use of their management accounting systems (Kaplan 1987, 81).

The audience for research in the two fields differs too. The audience for research on AMA phenomena is academics, with scientific journals as their media. OMA's audience, however, is practitioners. Because of the early stage of this research, it is vital that informed practitioners be centrally involved in the discourse on attempts to
understand, characterise, and influence practice. This explains why a case study is more meaningful than statistical methods. AMA models describe management accounting issues in isolation from the rest of the organisation. OMA, on the other hand, is integrated with the entire organisation. An interesting discussion of accounting and its association with organisational processes can be found in Hopwood (1983), who argues for “more substantive investigations orientated towards providing bases for understanding or explaining the workings of accounting in action” (1983, 303).

Thus, the role for a management accounting system needs to be understood in the context of the interaction among the entity’s product mix, production technology, organisation, marketing strategy, and engineering capabilities. Therefore, OMA phenomena must be studied in actual organisational settings. “Until we acquire much better understanding of OMA phenomena, our analyses must be based on observations taken from actual organizations” (Kaplan 1987, 82)

The remainder of this section will look at management accounting in theory, or as Kaplan refers to it: AMA. The emerging field of OMA will be covered in Chapter 4 when management accounting is studied in practice.

The positivists recognise that management accounting exists within the organisational and technological environment of the firm. In attempting to achieve the best outcome from the management accounting techniques used, the researcher tries to measure quantitatively the external environmental factors which influence the organisation. This is done in an effort to formulate the optimal combination of conditions that will allow the organisation to achieve its stated goals. The management accountant’s reports are predominantly quantitative, since it is implicitly assumed that the figures presented are more objective than any qualitative - and hence subjective - report could be.
According to Neimark and Tinker (1986) theories of organisations have had the most influence on management accounting literature until the 1980s. As late as July 1981 there was a conference held at the Graduate School of Management of the University of California at Los Angeles that concentrated mainly on ‘Accounting in its Organisational Context’. Hopwood (1983, 302), however, highlighted the limitations of the theme of the conference. He stated that the factors influencing accounting change and accounting innovation, the dynamics of accounting in its relations with other organisational processes, and the broader consequences of accounting, did not respect organisational boundaries. Accounting could not and should not be studied as an organisational practice in isolation from the wider social and institutional context in which it operates. Hopwood recognised that “accounting can never be seen in purely organisational terms” (1983, 302). He also indicated how much further accounting research needed to develop if it was to address factors such as the complexity of pressures, demands and influences that operate in accounting practices.

In management accounting the functionalist approach is currently the dominant research paradigm (Roslender 1996). Some areas in which the functionalist approach has been applied successfully are contingency theories, agency theory and the transaction cost theory. If management accounting is viewed from this instrumentalist perspective it will be seen as a discipline which is solely concerned with objectively reporting the situation of the firm. The aim of this reporting function is to provide information which will enable informed decisions to be made in an attempt to further strengthen the firm’s standing. This may be in terms of profitability, efficiency or effectiveness.

The alternative paradigm views accounting as a social and institutional practice, which interprets the objective features of organisations as cultural artifacts. So is
management accounting. This issue is a part of organisational management accounting (OMA). If management accounting is a cultural artifact it will consequently be "public" in the sense that it is not separated from its organisational and social contexts. As management accounting is implicated in its organisational and social contexts we may consider that it contributes in creating the culture of the organisation and constructing organisational realities (e.g. Morgan 1986, Chua 1988). Accounting symbols, such as accounting reports and analysis, provide interpretive schemes through which organisational actors shape the social and cultural realities within the organisation. From his field research, Dent (1991) gains an understanding of how emerging organisational accounting practices reform the culture of the organisation. In shaping the culture of an organisation, accounting symbols indeed interplay with other symbols which come from other parts of organisational life.

A simple model of the effect of the socio-economic environment and organisational culture on accounting systems is shown in Figure 3.4. The socio-economic environment is conceptualised in terms of uncertainty and institutionalised rules, myths, etc. Institutionalised rules are classifications built into society as reciprocated typifications or interpretations. Such rules may be simply taken for granted or may be supported by public opinion or the force of law. Obvious examples of legal rules are the Companies Acts and accounting standards. These have a direct influence on corporate financial reporting systems as shown in Figure 3.4. Examples of taken for granted rules include criteria of efficiency and effectiveness, rationality and intelligent choice. As indicated by the figure, these influence management accounting systems and corporate financial reporting systems via organisational culture. However, accounting systems may be used by organisations to control their socio-economic environment as shown by Figure 3.4. For example, developments in accounting practices give rise to
particular conceptions of organisational efficiency and performance (Thomas 1989, 363).

Figure 3.4: A simple model of the effect of environmental and organisational culture on accounting systems.

<table>
<thead>
<tr>
<th>Environmental uncertainty, institutionalised rules and myths, social values and attitudes, etc.</th>
<th>Organisational culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management accounting systems</td>
<td>Corporate financial reporting system</td>
</tr>
</tbody>
</table>


Thomas also shows in his figure that there is a relationship between organisational culture and accounting systems. The issue now, will be to determine to what extent do organisational culture influence management accounting systems and vice versa. The interrelationship between management accounting systems and corporate financial reporting systems, however, is only pure speculation and there is no empirical evidence of the relationship.

3.5 Conclusion

The “culture” phase accounting is experiencing is only a recent phenomenon. Traditionally, accounting has been seen as a neutral technique or device that merely documents and reports the facts of economic reality. The “new” view of accounting is conceived to encompass a broad range, from being a measurement technology to affecting individuals, organisations and society. The human aspect is, however, more culturally dependent than the technical aspect of accounting.
Even though the relationship between accounting and culture has received noteworthy consideration in recent accounting literature, it has mainly been in the field of financial accounting. As we have seen in this chapter, there have been many attempts to develop a theoretical framework for the relationship between financial accounting and culture. One of the most recognised frameworks is by Gray, who in 1985 analysed the impact of culture on financial accounting practices. Four significant accounting value dimensions were found; professionalism, uniformity, conservatism and secrecy. Each one of them can be related to societal values as identified by Hofstede; uncertainty avoidance, power distance, masculinity and individualism.

A similar framework for management accounting in practice is still to be developed. As shown by Gray's model, financial accounting is related to national culture (see point 1 in Figure 3.5). Management accounting, on the other hand, is believed to be related to organisational culture (see point 3 in Figure 3.5). Chapter 2 explained that national culture has some influence on organisational culture (see point 2 in Figure 3.5). However, so far there has been no evidence that organisational culture has a major affect on financial accounting, or that national culture is the predominant cultural force on management accounting (see point 4 in Figure 3.5). Hofstede, on the other hand, showed in his study that national culture has a stronger effect on management accounting through the individuals in the organisation (see point 3 in Figure 3.5).
The interaction between organisational and national cultures distinguishes the cultural aspects of management accounting in each country. As mentioned in Chapter 2, power distance and uncertainty avoidance are closely related to the functioning of organisations within a nation. These two dimensions represent an organisational culture. By contrast, the two remaining dimensions of Hofstede, individualism and masculinity, belong to a national culture that is relatively independent of changes in business organisations. However, the four dimensions are related since individualism and masculinity are relevant to the functioning of individuals within organisations. With regard to the individualism and masculinity, management systems depend strongly upon whether ownership is separated from management, if management systems are dependent on collectivism or individualism, if family is separated from company, or whether there is decentralised or centralised decision-making.

In the next chapter, an attempt will be made to clarify the relationship between national culture and management accounting in practice and management accounting as a profession. The relevance, usefulness and possibility of developing a theoretical
framework for analysing the impact of culture on management accounting will also be examined.
CHAPTER 4

MANAGEMENT ACCOUNTING AND NATIONAL CULTURE

4.1 Introduction

Management accounting has altered enormously during the last two decades. This is partly a result of organisations around the world being faced with increasing competitiveness in a climate of constant change. This increasing international competition, which is explicitly stated as a major pressure for change has meant that it is crucially important that companies become informed about the necessity to change their existing “traditional” practices. The ability to manage and direct change processes is one of the most sought-after capabilities in a modern organisation. It can also be argued that companies resisting change will not survive in the face of strong global competition. The need for change, and to be sensitive to this need, has been implicated over the past decade to be important for accounting systems and practices.

For companies to survive and succeed it is simply not enough to stick to the traditional way of doing accounting. It is no longer enough to just derive the “right” answer. Management accountants must now be able to communicate that answer in a wide variety of situations. New forms of management accounting information must be freely and frequently available if the organisation is to acquire and distribute the knowledge needed to survive. The requirement for accuracy and correctness in cost accounting can sometimes overwhelm the “new management accountants”. A strategic shift in emphasis away from simply reporting the level of costs incurred to determining, and more effectively managing costs is needed.

New management accounting techniques have been developed to assist the management accountant in this changing environment, although developments in the
East and West have tended to be along different lines. A major factor influencing differences in management accounting practices has been shown to be variations in national and organisational cultures. In Western management accounting techniques, such as activity-based costing, activity-based management, strategic management, balanced scorecard have been developed (see section 4.2), while in Eastern management accounting target costing, Kaizen costing and just-in-time have been favoured (see section 4.3). Rather than seeing the different approaches as antagonistic, lessons can be learnt by both sides from each other's management accounting on how to become more competitive, more profitable and more efficient.

The changing practice of management accounting has resulted in a drastic change in the role of the management accountant. Significantly, there has arisen an opportunity for management accountants to become a part of the organisation's value added team instead of remaining as the stereotyped 'beancounter'. Although changes to management accounting are seen by many as enriching the management accountant's role, Cooper (1996) warns that the increasing importance of cost management to a firm's survival could lead to new forms of cost management where individuals in the firm become more actively involved in the cost management process. The need for management accountants could fall with these types of decentralisation of some management accounting tasks to the workforce.

The changing nature of management accounting is also reflected in the increasing importance of commercial awareness on the part of management accountants (Burns 1996, 58). Management accounting is now seen as part of the management system with an emphasis on commercial orientated forms of management. A more supportive role has been adopted by management accountants towards managers who
require both financial and non-financial information for decision-making and controlling. All this would not have been possible without the widespread availability of information technology which has allowed accounting for operations to become more dispersed throughout the firm. As a result, there appears to be a greater interplay between accounting and other data for operational managers. Thus various performance indicators are being used to motivate staff and managers who use their own interpretations of these indicators to inform their judgments for day-to-day decision making.

The attention devoted by accounting researchers to the relationship between financial accounting and national culture has been at the expense of management accounting. Increasing concern over the past decade that Western companies are less competitive than their Eastern competitors has refocused attention towards management accounting. Management accounting is now seen as one component of new management practices which are increasingly indebted to successful Eastern approaches.

It is the researcher’s belief that accounting practitioners and academics would benefit just as much from developing a framework for management accounting and culture. One of the benefits with a framework would be the increased understanding of different management accounting practices. This understanding would be beneficial for corporations expanding internationally, corporations doing business with foreign countries, or even for a corporation that is searching world-wide for the ultimate “money-saving-and-increasing-quality-management-accounting-system”.

Chapter 3 established that organisational culture is influenced by national culture (see point 1 in Figure 4.1). Organisational culture, in return, affects the management accounting of a corporation (see point 7 in Figure 4.1), and national culture also affects
management accounting through the individuals in the organisation; hence the organisational culture (see point 3 and 4). With the increasing globalisation of businesses we can, therefore, assume that for a multinational corporation there is bound to be some influence from the national cultures of competitive countries (see point 2 and 5 in Figure 4.1). The issue here is the relative extent that national culture and organisational culture affect an organisation. In Chapter 5 a one-company case study will examine a Swedish corporation in Australia. The aim is to separate the effects of organisational culture (the influence from the head office in Sweden) and the influence of the national culture (see point 6 in Figure 4.1) on management accounting (in this case the Australian national culture).

Before this can be achieved, the culture of the management accounting profession of the countries involved will be examined. The broad distinction between West and East will act as a structure for this chapter when management accounting practices are examined.
This chapter is divided into five parts. The first part is concerned with the culture of management accounting used and developed in the West. The second part deals with lessons that can be learnt by management accounting from Eastern cultures. The third part examines the impact of the East on the changing role of management accountants. The fourth part deals with the consequences of integrating Western and Eastern management accounting techniques. The final part proposes and examines a theoretical framework for management accounting and culture.
As the title of the chapter explains, this chapter is mainly directed towards national culture. The relative impacts of national and organisational culture effect the management accounting system of an organisation is the aim of the case study examined in Chapter 5.

4.2 The story of Western management accounting

In the mid-1980s many criticisms were made in professional accounting journals and among accounting practitioners about the current state of management accounting practice in the West and its relevance. A group of writers, including H. T. Johnson, R. S. Kaplan and R. Cooper, along with others, claimed that Western management accounting systems were often producing data which were misleading and likely to lead managers into taking the wrong decisions. They argued that cost accounting systems had lost much, if not all, of their former relevance and usefulness by the 1980s. This relevance debate is particularly identified with Kaplan (1983, 1984, 1985, 1988) and Johnson and Kaplan (1987) who saw the need to regenerate American industry in the context of the emergent global economy. Their initial writings brought forth a vast amount of articles which were critical of management accounting. Some of the more important criticisms evident in the literature included:

- the limited evidence of technical development within management accounting practice in response to the major changes in manufacturing technology in the previous 15 years. These changes had resulted in greatly increased productivity, flexibility and improved quality, together with reduced lead times and lower levels of inventory, none of which management accounting seemed interested in, nor able to report (Roslender 1996, 534).
• the contention that management accounting was the captive of financial reporting. According to Johnson and Kaplan (1987, 195), there is evidence that firms produce management accounting reports using the same basis as that required for financial reports, and that this is particularly the case with reports to senior management. The consequences for management accounting reports are potentially serious as the objectives of management accounting and financial accounting are very different. This, it has been argued, has resulted in problems with cost allocation techniques, stock valuation, an over-reliance on historical information for process control and a short-term business outlook (Roslender 1996, 534). Over the last 30 years, overlap between financial accounting and management accounting has been seen to reduce. Management accounting was struggling with its new independence as it distinguished itself as being broader than cost accounting yet largely dissimilar to financial accounting (Koziol 1996, 60).

• academic management accountants had concentrated on simplistic, economic-based models of the outside world, e.g. agency theory, rather than studies of “best practice”. The research literature had become divorced from management accounting practitioners. Addressing the relevance issue would necessitate closing the theory gap which had occurred in the previous three decades.

• management accounting fails to capture a company’s progress towards new management systems such as just-in-time systems, total quality management, activity-based costing etc.

• product costs in multi-product companies are incorrect due to outdated overhead absorption methods. At the time standard costing systems were designed, direct costs were typically significantly larger than the indirect costs and thus different methods
of allocating overheads did not make a substantial difference to total cost. Today, companies using advanced manufacturing technologies may have overhead charge-out rates exceeding 1000 per cent (Friedman & Lyne 1995, 6).

- the internal orientation of accounting information is too narrow for strategic decision making. By using return-on-investment to control divisional performance and standard costing to control operational performance, the style of ‘managing by numbers’ has been documented.

- management accounting is not a recent development. It originates from the first half of the nineteenth century, providing the basis for effective cost management, management control and performance measurement in the 1920s (Roslender 1996, 535). As a consequence the systems are today obsolete and misleading.

The picture painted by the criticisms in the literature is that management accounting is not helpful for product costing or operational control. Whether standard costing, return-on-investment or any other management accounting techniques are examined, the same picture is seen: basic systems unchanged for decades, a dominant financial mentality and accounting data being produced which have little managerial value (Friedman & Lyne 1995, 8). Accountants have been accused of being unaware of the deficiencies of the data they are producing for managers which have resulted in management accountants being labeled as bean counters. The remainder of this section will look at how academics and practitioners in the West have dealt with the current state of management accounting as characterised by the above mentioned criticisms.

4.2.1 From traditional cost accounting to activity based costing

Traditional cost accounting has hardly changed since the 1920s when most of the
tools and techniques which have been used in the last decade were developed. It is important to recognise they were developed in a time when direct labour was a relatively high proportion, and overhead costs were a lower proportion, of total manufacturing cost. Hence, traditional cost accounting is seen to be failing in strategic decision making, performance measurement, investment management and as a basis for pricing, because it emphasises short-term planning and control, decision making, and product costing. Traditional cost accounting also finds it hard to cope with flexible manufacturing systems, computer integrated manufacturing and optimised manufacturing. There is also a conflict between traditional cost accounting and modern manufacturing philosophies that are aiming to optimise production, minimise waste and reduce inventory. Variance analysis is irrelevant in a just-in-time environment where production flow and cycle time are critical. Reporting “favourable” efficiency variances caused by over production is irrelevant if JIT says we should not have produced it at all. Also monitoring “favourable” purchase price variances is pointless if suppliers provide poor quality materials and deliver infrequently (Hayde 1990, 52).

Over the past decade, many companies have revised their cost systems significantly as part of a reorganisation to become more competitive in an environment that demands high quality, excellent service and competitive prices. Changes have been made to give management the information it needs to implement competitive strategies as well as innovative technologies. As part of the changes, accounting information, provided to management, has shifted its focus from achieving better product costing to gaining a competitive advantage in the marketplace. This change in internal focus, however, has placed additional demands on cost systems that traditionally have been meeting both the internal needs of management and the external demands of regulatory
requirements (Mecimore & Bell 1995, 22).

About 10 years ago an alternative to traditional cost accounting developed which captured the imagination of academics, cost accounting professionals and manufacturing organisations because it proposed to resolve many of the problems and issues raised by traditional cost accounting. The approach is called Activity Based Costing (ABC) because it recognises two key truths: activities, not products, cause costs; and managing costs is best achieved by the managing of activities. This is something that traditional costing was never able to do. ABC may be characterised as passing through three generations, with each contributing important new information to the workplace (Kennedy 1996, 22).

First-generation ABC emphasises *product costing*, with the major output a better product-costing cost accounting system. Cooper and Kaplan (1988, 1991) have been closely associated with the development of the first-generation ABC system. A major contribution of the first-generation ABC system was the recognition that cost drivers may encompass more than one facet of an organisation. For the first time, costs were divided into value-added and nonvalue-added components, with cost drivers separated into volume-related and transaction-related categories (Mecimore & Bell 1995, 23). The focus was on the elimination of nonvalue-added cost drivers by continuous improvement, and the elimination of nonvalue-added activities.

The first-generation ABC system made a significant contribution to the identification of internal cost drivers, but it did not attempt to work with cost drivers outside the specific business unit. Also, the cost drivers were associated with resource consumption, not processes. While this focus led to better product costing, it did little to help implement JIT, continuous improvement systems, zero defect philosophies and
other current management concepts.

For long-term profitability a business needs information about processes as well as product costs. Continuous improvements are made to processes that have an impact upon the costs of products. This observation led to the second generation ABC which focuses on processes rather than products (Mecimore & Bell 1995, 24). The implementation of second-generation ABC systems requires a degree of complexity that is not present in first-generation systems. In the first-generation systems activities were identified first, costs were then associated with such activities, and lastly product costs were developed from these two components. In the second-generation system, processes have to be identified and activities linked to the processes. This linking may be the most difficult challenge for companies to overcome (Mecimore & Bell 1995, 24). Processes are finite in nature, and recognising them in isolation is difficult. Therefore, a company should define processes before it attempts to associate related activities to the defined process and processes should not be forced or defined to fit activities; activities should fit processes (Mecimore & Bell 1995, 24).

The development of second-generation ABC systems should be seen as a significant expansion of first-generation systems rather than a completely new system. Irrespective of the improvements which ABC allows, both systems focus on internal activities and provide management with only limited information for strategic planning. To develop a successful strategic plan, information is needed about activities external to the business unit, something not considered by second-generation ABC. This ultimately led to the development of the third-generation ABC (Mecimore & Bell 1995, 25).

The third-generation ABC system endeavoured to address the shortcomings of the first- and second-generation ABC systems. In this new version of ABC, external as
well as internal activities are considered within the realm of the system. A third-generation ABC system focuses on the business unit and its relationships with others, both inside and outside the business unit. It links activities to processes and then processes to a business unit. Thus, a two-stage linking procedure is necessary to implement such a system. Focus is on the business unit, not on individual activities or processes. For the company to achieve competitive advantage, all activities inside a business unit and those that influence its overall activities must be examined and evaluated carefully. These so-called support activities may add value to the product or service. First- and second-generation ABC systems did not integrate support activities explicitly but instead considered methods by which support activities could be assigned to products or services or could be eliminated if they were considered nonvalue added. Therefore, the third-generation ABC system considers support activities and how they may be used to gain a competitive advantage (Mecimore & Bell 1995, 26). Activity-based techniques have been used for straightforward cost reduction, process improvement and re-engineering, benchmarking, performance measurement and a variety of related exercises including activity or priority based budgeting (Evans & Ashworth 1995, 27).

The three generations of ABC supplement and complement each other. Certainly one system should not be considered the replacement of either of the other two. The first generation focuses on product costing, the second generation on process costing or performance evaluation, and the third generation on value chain costing to be used in strategic analysis. Given that all three use the same activities database, the differences lie in the types of linkage and the extent to which data on activities are to be gathered. The next logical step would seem to be linking activities between business units,
creating an ABC system that provides information for the company as a whole. This fourth-generation ABC system would be a macro approach as compared with the micro approach of the first three generations. Although it would be extremely complicated, the ability to link activities in such a manner would seem to be within the realm of current technology (Mecimore & Bell 1995, 26).

The globalisation of the business environment suggests that a forth-generation ABC system should become a reality soon. Inputs to companies are sourced globally, and payments for such inputs are made on a global basis. There are economies of scale in purchasing on a global basis. Other advantages of integrating business units include hedging foreign currencies and lower-level currency transfers between business units. The whole company benefits from such cross-border transactions between business units. For companies to measure such activities adequately, they need fourth-generation ABC (Mecimore & Bell 1995, 26).

Few things could be as challenging in business terms as changing the approach to everyday management, not just during a project. There are huge benefits to be gained from ABC if firms are willing to take the risk. Included in the benefits is a more accurate costing system which will lead to a better basis for different product-related decisions, such as outsourcing decisions, product mix decisions and product pricing. Hidden profit will be revealed and it will be possible for managers to assess product, customer, and market profitability on a sound basis. The accuracy of ABC, it is suggested, will also improve the management of activities that produce the outputs. This includes how to perform the activities more efficiently, how to reduce or eliminate non-value adding activities etc.

The necessary criteria for success can be distilled from a small number of critical
components: sound business knowledge and understanding; good communication; technical competencies; and proper software and systems (Evans & Ashworth 1995, 28). If these criteria are met and fully utilised ABM should provide all the benefits it has been developed for.

4.2.1.1 Criticisms of activity-based techniques

Initially, ABC was thought to be the optimal solution to many of the criticisms of management accounting. Subsequent study punctured this optimism by raising a number of criticisms. Criticism can be divided into two forms: practical matters and theoretical issues. The work of Evans and Ashworth (1995), who jointly lead Ernst & Young’s team of consultants specialising in the implementation of activity-based management (ABM), have a number of reservations about ABC and ABM.¹ From their experience, Evans and Ashworth have found that the following factors present potential problems when ABC/ABM is put to practice (1995, 28-29):

- lack of focus on the business issues to be resolved;
- poor activity analysis or cost driver definition;
- too much or too little data for the job in hand;
- limited management understanding;
- inflated management expectations;
- lack of top-level sponsorship;
- lack of adequate resourcing;
- failure to act on the information generated;

¹ ABM is the wider application of an activity-based approach and is not an accounting exercise but a system designed to inform management about the economies of its past, current and future operations (Kaplan 1992, 58). More on ABM in 4.2.2.
- resistance to accept the reality of the information generated;
- fear of change;
- inadequate planning;
- poor-quality information presentation of high-quality data outputs;
- no hard or quantifiable benefits emerging early on;
- not implementing full organisational change by failure to link into related process improvement initiatives;
- project implementation financially biased, either in project management or as key customer for information outputs;
- lack of specialist technical skills required to make rapid progress in key areas;
- inadequate training;
- poor communication;
- simply followed the consultants’ recommendation about ABC/ABM

ABC/ABM might seem to be doomed by the many factors that might go wrong. According to Ask, Ax and Jönsson (1994, 15) there are four major obstacles for improvements in traditional cost accounting systems (whether to implement ABC or another cost system). Management priorities and policies are the major obstacle by not seeing cost accounting as a high priority area. The second obstacle refers to how deeply rooted cost systems are and that “this has always worked” reasoning is common. Accountants are notorious for being conservative and skeptical about what they will get from change. As a consequence, the third barrier is the lack of understanding of other options, while the last barrier is lack of relevant data.

On the theoretical side, ABC has been criticised for primarily being still an allocation system: there cannot be a true product cost if there are any indirect costs
which need to be allocated. Critics question whether the traceability notion of ABC is in fact anything more than a sophisticated allocation system, and if this is so then ABC has no conceptual advantage over traditional systems (Friedman & Lyne 1995, 17).

A second criticism of the theoretical aspects of ABC centers on the internal orientation of ABC which can become introspective (Bromwich & Bhimani 1994, 9). It is argued by many that, more than ever before, firms need to have an outward-looking market-based strategy. One form in which such an approach can be implemented is strategic management accounting (Bromwich 1990). However, it is unlikely that many companies would engage in more than one major change to their accounting systems at the same time. Activity-based techniques may thus be a distraction which consumes managerial resources that could be better used elsewhere. For example, ABC reinforces cost-plus pricing when firms should be striving for greater market-based pricing. Therefore, a more optimistic scenario would be a company adopting both ABC and a more strategic approach, and using each to address the appropriate issues (Friedman & Lyne 1995, 19).

### 4.2.2 Western accounting for planning and decision-making

Johnson, Kaplan and Cooper’s contemporaries have had a broader vision than just activity-based costing with the promotion of a more strategic approach to management accounting. Bromwich and Bhimani (1989) concluded that there was little doubt that traditional management accounting has been limited by its focus on events in the factory. Consequently, attention shifted from purely management accounting to aid in management control to the development of strategic management accounting. Strategic management accounting aims to structure best practice in accounting to
enhance competitive advantage by monitoring a corporation's continuing strategic presence in the marketplace. To accomplish this, management accountants must learn about product and process technology, operations, systems marketing, strategy, and the behavioural and organisational issues relating to the implementation of new systems and processes. ABC alone is not sufficient.

Roslender sees the development of accounting for strategic positioning in terms of a succession of phases (1996). Initially a range of relevant techniques for accounting to management was promoted, most notably ABC. Accompanying ABC in the initial stage were backflush accounting, which provided a means of accounting in a just-in-time environment by working backwards to allocate costs between products sold and inventory, and throughput accounting which focused on the problems associated with manufacturing response time (Roslender 1996, 536). Backflush accounting differs from the more conventional procedure of working forwards in the accounts and then does not encounter the difficulties associated with large quantities of work in progress, which is probably why it is mostly appropriate with a just-in-time approach to production. There has, surprisingly, not been a widespread acceptance of backflush costing due to difficulties it presents in tracing costs once the products are completed (Mock 1995, 41). Throughput accounting focuses on the problems associated with manufacturing response times. Response times are affected by a range of factors which are difficult to eliminate entirely, e.g. production bottlenecks, organisational slack, rework levels, scheduling failures. The challenge here is to provide information which enables management to take fullest advantage of the prevailing circumstances (Roslender 1996, 536).

A further group of techniques emerged which promised 'softer', i.e. qualitative, accounting information in addition to the hard numbers, i.e. quantitative, on which
accounting's reputation traditionally had been established. These techniques had a more outward looking approach of accounting for management. Prominent amongst these approaches is *life-cycle costing* (Berliner and Brimson 1988), which focuses on the pattern of costs associated with the life-cycles of products, providing guidance on how to account for these over time. Also, Bromwich (1990, 1991) advocated the adoption of a *strategic management accounting* technique based on the contention that the benefits which products provide constitute the ultimate cost drivers. Simply attributing costs to products as in traditional costing and ABC, rather than to the benefits which they offer, overlooks the fact that competitive advantage is achieved in the marketplace through products which offer benefits to the consumer.

The second phase in the development of accounting for strategic positioning involved the emergence of generic approaches for enhancing accounting's role in the strategic management process. As mentioned in section 4.2.1, Kaplan and Cooper quickly recognised the limitations of ABC, moving to advocate a more comprehensive activity-based theory of the management process known initially as *activity-based cost management* (ABCM) and subsequently as *activity-based management* (ABM) (Cooper and Kaplan 1991). ABM is an interplay between management accounting and cost management in intensely competitive environments (Cooper 1996, 26), and usually refers to the wider application of an activity-based approach (Kennedy 1996, 24). ABM is not to be considered as just a collection of activity-based tools and techniques, but more importantly it forms a new basis for a fundamentally different way of managing. Cooper, Kaplan, Maizel, Morrissey and Oehm explain the ABC/ABM relationship as: “ABC information, by itself, does not invoke actions and decisions leading to improved profits and operating performance. Management must institute a conscious process of
organisational change and implementation if the organisation is to receive benefits from the improved insight resulting from an ABC analysis” (1992, 308).

ABM supports decisions such as how to modify pricing, product mix, and customer mix; how to change supplier and customer relationships; and how to improve the design of products and services. Such decisions will result in companies reengineering in an attempt to increase efficiency and to eliminate activities that do not create any customer value (Kaplan 1992, 62). Occasionally the so called implementation of ABM relates to a one-off costing apportionment project using a handful of cost drivers. This type of use will not fundamentally affect the management or real performance of the organisation. It cannot be emphasised strongly enough that this is not ABM (Evans & Ashworth 1995, 28).

A second generic approach to accounting for strategic positioning is Shank and Govindarajan’s (1992) *strategic cost management* (SCM). SCM integrates value chain analysis, strategic positioning analysis and cost driver analysis. A third generic approach to accounting for strategic positioning is *continuous performance improvement*, which is the relentless pursuit of improvement in the delivery of value to the customer. It is based on manufacturing, engineering and marketing excellence, complemented by the development of an accounting philosophy which reflects the environment of global competition, rapidly changing production technology and shortening product life-cycles (Roslender 1996, 538).

The third phase in the development of accounting for strategic positioning is presently on its way, with some continuities with the two previous phases. The major difference to the two previous phases lies in the new pivotal role that management accounting plays in the management reporting necessary for the pursuit of strategic
positioning. An integrated strategic management process demands integrated modes of performance measurement, also known as critical success factors (CSF) (Roslender 1996, 539). The inclusion of both financial and non-financial measurements in performance evaluation is a stepping stone in the long sought after ability to accurately measure performance.

4.2.3 Western accounting for controlling

Traditionally, management accountants have been providing numbers to the management for the purpose of decision-making and controlling the organisation. This has been the case since the emergence of modern industrialised economies in the late eighteenth century (AusIndustry 1995, 8). The role of management accounting is slowly changing into something more than just providing numbers. Harris (1995, 12) suggests that “the main thing that management accountants need to take on board is that values are more fundamental than financial objectives and that each organisation should try to identify those core values which are important to the company and then bed them into the culture (of the organisation)”. This is something the Western management accounting and cost accounting methods traditionally have been unable to address. Some of the more obvious paradoxes which arise from traditional Western approaches to management control include (Harris 1995, 12):

1. Customer service levels: Providing a high level of customer service costs money, and when a business is under pressure and costs are being reviewed it can easily get concerned about the money being spent in areas for which there is no obvious financial return.

2. Outsourcing: Until a few years ago companies used to keep their support functions in-
house, presumably on the grounds that it avoided paying somebody else's profit margin, as well as being easier to control. But, recently, organisations have begun to outsource increasing amounts of their non-core activities.

3. **Economies of scale**: Economies of scale lead to lower unit costs from, for example, building larger production plants. But some of the excellent companies quoted by Peters and Waterman in *In Search of Excellence* (1982) turn this concept on its head, and deliberately build plants which are very undersized by any conventional definition.

4. **Budgeting and planning**: Many organisations are managed almost exclusively on numbers, and principally financial numbers. The issue of employee participation in budgeting systems has also been controversial.

5. **Short-term/long-term trade-offs**: The pressure is always upon achieving short-term results, and developmental items such as training or systems-improvements expenditures are deferred or canceled altogether, with the consequence that the business finds it difficult to move towards its objectives.

None of these paradoxes is particularly new and most senior managers will have had to find commonsense ways to deal with these issues. Harris' argument is that, when taken together, the list, which is by no means exhaustive, starts to indicate that our existing theory in Western business culture is fundamentally inadequate, since none of the above five paradoxes can be resolved using only financial tools. By using Western management accounting techniques, such as ABC, the cost of a particular level of customer service can be measured but when it comes to determining the level of customer service Western management accounting will have to resort to emotional arguments (Harris 1995, 12)

The problem is to implement an awareness of paradox for accountants and
managers. By learning to manage paradox, tools can be obtained which can be used to enable us to find a way through the five dilemmas outlined above, and any others which might arise. This is what management accountants are trying to deal with when introducing critical success factors (CSF), such as the balanced scorecard and key performance indicators (KPI's).

In conventional financial reporting the harder numbers have traditionally been reflected by the dominant role which profit assumes in the marketplace. In this sense profit was the critical success factor. However, in the vastly more competitive marketplace of the 1980s and 1990s, although sustained profitability remains the ultimate goal of corporations, the means of its attainment are much more varied and, more significantly, increasingly important. Thus, it is vital that corporations recognise the advantages of CSFs which are available to them and are able to measure, report and act on those selected (Clarke 1995, 48). Consequently, as well as being concerned with sales and margins, it is necessary to have information on product times, component commonality, quality initiatives, customer satisfaction, customer service activity, employee skill development, employee involvement, employee turnover, dependable delivery promises, continuous product development, effective after-sales service or in fact any element of performance which might be related to success in the market place (see for example Roslender 1996, 539; and Clarke 1995, 48).

The dominance of predominantly qualitative characters in the CSFs demonstrated above is well-exemplified by the management reporting regime known as the balanced scorecard (Kaplan and Norton 1992, 1993). The term ‘balanced’ reflects the objective of reporting to stakeholders rather than the owners of the business. Kaplan and Norton’s balanced scorecard includes a financial perspective together with
customer, internal business, and innovation and learning perspectives. The aim with the balanced scorecard is to measure the output target and not process-oriented measures. Upper management urges the division managers to go outside their organisation and determine the approaches that will allow achievement of their long-term output targets. The focus transfers from a measurement system to achieving performance results. A measurement orientation reinforces concerns about control and a short-term focus. By emphasising targets rather than measurements, a company could demonstrate the purpose to achieve breakthrough performance (Kaplan & Norton 1993, 146).

It is, therefore, important not to think of the scorecard as a new measurement system that eventually requires hundreds and thousands of measurements, and a large, expensive executive information system. Companies which do this lose sight of the essence of the scorecard: its focus, its simplicity, and its vision. The real benefits come from making the scorecard the cornerstone of the way you run the business (Kaplan & Norton 1993, 147). The scorecard reflects the need to sustain a strategic position in the marketplace, in order to create value for its shareholders, provide challenging employment opportunities for its workforce and enjoy a sustained partnership with customers. The overall goal of corporations is to generate long-term economic value. By supplementing financial measures with the drivers of long-term financial performance, organisations will be able to specify objectives that balance short-term financial performances with the drivers of long-term growth opportunities for future financial performances (Kaplan & Norton 1992, 1993).

What is needed in Western businesses is to unify the financial side with the culture of the company, and if you get things right, particularly on the people side, then profit will flow (Harris 1995, 13). There are a lot of parallels and lessons here to be
learnt from Japanese management accounting, which will be discussed in the following section.

4.3 Lessons from Eastern management accounting

There have been two major revolutions in manufacturing in the twentieth century. The first revolution was the development of mass production, best exemplified by Henry Ford's Model T, and the second was the development of 'lean' production by Toyota. Mass production evolved from approximately 1915 to 1925 and lean production from 1951 to 1961. The competitive environment of mass producers supports strategies of cost leadership and product differentiation, which are both based upon the assumption that a firm can develop and sustain competitive advantages and therefore can avoid competition. By developing a sustainable cost advantage, the cost leader is able to offer products that are low in price and low in functionality. In contrast, product differentiators develop sustainable advantages in product development, with products that have higher functionality but sell at higher prices. In theory, cost leadership and product differentiation strategies in their pure forms create zones of no competition, while the firms that are stuck in the middle engage in head-on competition because they have no sustainable competitive advantage (Cooper 1995, 3-5).

While American and European firms were well financed and produced vehicles in high volumes using a great deal of expensive equipment, the Japanese industry was forced to find ways to produce automobiles in small volumes using far less equipment. The lean enterprise was developed. The capital scarcity problem was solved by reducing set-up times from days to minutes, which made small-batch production economically feasible.
With the emergence of the lean enterprise, the competitive environment has undergone a slow, steady transformation from competition between mass producers to competition between lean producers. Lean enterprises do not compete in the same way as mass producers. Unlike occasional head-on competitions between mass producers, head-on competition between lean producers is continuous. Firms that adopt a confrontational strategy must become experts at developing low-cost, high-quality products that have the functionality customers demand. Firms adopting the confrontational strategy must also develop integrated quality, functionality, and cost management systems, also called the "the survival triplet". It is the integration of these systems that allows many Japanese firms to respond so quickly to changes in economic conditions and to match the innovative products of their competitors. Unfortunately, in Western literature, the systems have been described in isolation to each other. Systems to manage quality have been described as "total quality management systems", and functionality systems have been described as "time to market systems", while any cost management systems have almost been ignored (Cooper 1995, 6-7). This is not feasible because an organisation cannot keep a competitive advantage constant, which leads to the organisation's costs being managed both aggressively and intelligently by virtually every person in the firm.

Confrontation strategy was adopted in Japan in response to severe capital rationing in the Japanese automobile industry in the early 1950s and the size of markets which were not able to support mass production. Lean enterprises were developed which played a major role in shaping competition in the Japanese economy, and the introduction of mechanisms for rapid technology diffusion. TQM, JIT, low prices and continuous product development caused Japanese firms to become engaged in an
intense competitive battle, leaving the customer with all the power (Cooper 1995, 37-38).

It is strongly believed by the Japanese business community that the successful penetration of Japanese firms into international markets has been due to its management systems, including its management accounting systems. Consequently, large Japanese businesses have actively been transferring their management systems to their overseas affiliates. However, the techniques transplanted into other countries are only a part of Japanese management. Teamwork and total quality have mainly been transplanted in other countries separately from long-range strategy and investment policy (Nishimura 1995, 328). These management methods link closely with Japanese national culture, and the transfer of national culture to other countries has caused more serious problems than the transfer of the organisational culture suggested by Peters and Waterman (1982).

Non-Japanese managers in other countries have also, in pursuit of high quality and productivity, introduced Japanese management methods into their companies through a process called “Japanization” (Munday 1991, 32-33). Japanization has been found to be very costly as a consequence of the high salaries, short working hours, and lack of a supply systems for cheap parts in the West. Nishimura (1995, 328) concludes his study of transplanting Japanese management accounting noting that:

When transplanted management produces cultural conflicts in the transferees, it should be moulded into a management system suitable for the cultures of the transferees. One must consider the optimum condition for low transferring cost in order to maximise the benefit for the transferee countries. Therefore, both the quality and quantity of transferring cost should be examined in depth. It is very important to make the general characteristics of present excellent management accounting clear and to develop an advanced management accounting suitable for the national culture of each country.
After a decade of implementation, some analysts have praised Japanization for its success, while others have criticised it for its detrimental impacts, especially the cultural conflicts caused in the transferee countries. It is therefore important to discuss the transplanting of Japanese management from a cultural viewpoint - an approach which so far has scarcely been entertained in the accounting literature.

4.3.1 Japanese management systems in the West

Some of the Japanese management systems introduced in the West have been just-in-time production (JIT), quality control and total quality management (TQM).

4.3.1.1 Just-in-time

The goal of JIT has been defined as to produce instantaneously, with perfect quality and minimum waste, by organising production in such a way as to minimise inventories and stocks. Some of the unique features of JIT are the interaction between cost accountants and engineers, the relationship between “feedback” and “feedforward” in management planning and control, and the process of cost reduction in the design stage (Nishimura 1995, 321).

When implementing JIT in a Western organisation it demands competence and commitment on the part of all employees and suppliers because the system is extremely vulnerable to disruption, accidental or otherwise. The keiretsu system already existent in Japan (see 2.3.2) is a perfect setting for the development of JIT production, whereas the individualistic atmosphere found in Western countries may not be suitable for the complete implementation of JIT (Velayutham & Perera 1996, 78).
The JIT system essentially consists of two sub-systems: visible management and a new production system. The visible management relies partly on Japanese culture and partly on advanced information systems. The function of ‘visible’ management is to discover and remedy problems quickly, and the function of the new production systems is to produce small lots, zero inventory, multi-skilling, short lead time, pull production method, a suitable arrangement of machines, and a horizontal relationship between middle-managers and workers. Japanese middle and lower managers play an important proactive role in anticipating problems before they occur, while the production system must be designed to solve the problems discovered in the process of visible management. In this system much depends upon the mutual trust between workers and managers, which explains why middle managers come down to the workshop, wear the same uniforms as other workers, take lunch in the same canteen.

A shortage of a middle management in Japanese organisations is questioned in Japanese overseas affiliates (Nishimura 1995, 321). However, in Western organisations the trend is moving from a hierarchical structure to a horizontal process-driven structure (Kloot 1996, 26). Employee empowerment has become the new management catchcry, and it permits individuals to take an active part in the decision-making process. This has led to the birth of a “new” middle manager in the West, whose objective is to introduce and maintain empowerment and teamwork (Dauphinais & English 1996, 30). The role of the middle manager is now to act as an important stabiliser to facilitate change within the company; maintaining and ensuring the success of networks with customers, suppliers, and outsourced functions, but also to act as a manager/coach for the employee/team and getting involved in employee training. Even though organisations have been writing off middle managers during the last decade, it seems that they are
about to return in Western organisations.

4.3.1.2 Quality control

Another management technique that has been introduced in the West is quality control and quality control circles which has made teamwork popular in the West (Peters & Waterman 1982). In the early stages of introducing quality control circles (and other Japanese management techniques involving teamwork) the resistance to teamwork seemed minimal. However, in recent times, evidence of resistance in practice (The Journal Economist) as well as in academic thinking (Cooper 1995) seems to be more apparent.

4.3.1.3 Total quality management

One of the most popular Japanese management systems introduced in the West is TQM. A central element of TQM is continuous process improvement at all levels of an organisation. Maintaining this improvement over a long period (as is envisioned by TQM) requires ongoing validation and support from management. TQM is a way to manage both financial and non-financial measurements. The quality problems of organisations in Western countries have their origin in the lack of a systematic, structured approach to measuring quality, something which already exists in managing for finance (Stace 1994, 26). TQM has been operating in Japan since the 1950s, in the US since the late 1970s and in Australia, in a small way, since the mid to late 1980s. It evolved from concepts from industrial engineering, quality control, computer integrated manufacturing and JIT, organisational development, and management training. TQM requires continuous and accurate measurements of every process that exists within the
organisation. As a result, one of the main weaknesses in implementing TQM programs is the failure to recognise the need to make these measurements (Stanleigh 1993, 27).

Hiromoto (1988) shows that Japanese success cannot be emulated simply through the adoption of techniques such as JIT and quality control circles because it is the aggregate result of the techniques in the context of Japanese society. It is argued that social control in Japanese society is a key ingredient in success, and that the most important function of team organisation is control.

Up until now, the research concerning culture has been almost exclusively on management systems. This thesis is concerned with culture’s relationship to management accounting. Some of the differences between Western and Eastern management accounting lies in how the Japanese manage their costs and how Japanese management accounting is integrated with planning and decision-making. Japanese management accounting, therefore, cannot be conceived independently of the Japanese strategic approach or management (Hiromoto 1988, Morgan & Weerakoon 1989, Hariman 1990). The following sections will examine these issues in more detail.

4.3.2 Managing the costs of future and existing products

The competitive environment that arose from the lean enterprise and confrontation strategy demanded the development of sophisticated cost management practices to keep costs down. Very early, the Japanese recognised that the most efficient way to keep costs down was to design costs out of products, not to try to reduce costs after products entered production (Cooper 1995, 91).

By adopting a feedforward approach in which costs are designed out of products before production, the focus of Japanese cost management systems shifted from
feedback techniques of cost accounting systems (such as product costing and operational control) to feedforward techniques (such as target costing and value engineering). Consequently, Japanese product costing and control systems are structurally identical to those encountered in the West, but applied differently. Japanese companies are aware that an allocation system should capture as precisely as possible the reality of shop-floor costs, but yet continues to use direct labour as the basis for allocating manufacturing overhead (Hiromoto 1988, 22). Japanese managers believe it is more important to have an overhead allocation system (and other aspects of management accounting) that motivates employees to work in harmony with the company's long-term goals than to pinpoint production costs. Only recently, however, have Japanese firms begun to explore the application of ABC principles (Cooper 1995, 91).

Japanese cost management systems have not been the major attraction for Western companies in the past. According to Cooper (1995, 94), there are at least two factors that help explain why they have not been fully analysed. First, the higher quality and higher functionality of Japanese products has distracted attention from costs. Western managers and academics may assume that any cost advantage comes through the increased efficiency of the enterprise instead of their cost management systems. Second, even though the lean enterprise can produce better quality and functionality products, it does not show superior profitability. Japanese firms consistently report lower profits than their Western counterparts. These lower profits reflect two underlying differences between Japan and the West. First, the inability to create a sustainable competitive advantage and the adoption of confrontation strategies which lead to reduced profits. Second, Japanese and Western firms have different objectives. In Japan, the shareholder is less powerful than shareholders in the West and, therefore, generating
high profits is less critical. In Japanese firms, the shareholder comes after the employees, customers, and creditors. Therefore, the primary objective of Japanese firms is to achieve stability and long-term reliability by creating and reporting continuously improving financial results, and particularly growth.

Under confrontation strategy, the objective of cost management is to instill in everyone in the firm a disciplined approach to cost reduction. Given this, effective cost management must start at the design stage of a product’s life because once a product is designed the majority of its costs are fixed. The primary cost management technique used by many Japanese firms during the product design stage is target costing. Target costing is closely related to JIT and consists of “a structured approach to determining the cost at which a proposed product with specified functionality and quality must be produced in order to generate the desired level of profitability at the product’s anticipated selling price” (Cooper 1995, 135). Target costing consists of two processes: genka kikaku (cost design) and genka Kaizen (continuos improvement). At the level of cost design, the target cost of a new product is estimated on the basis of a long-range profit plan and market price estimates. First, at the planning stage, the cost accountants and design engineers develop the target cost on the basis of the structure of the new product under the responsibility of a chief engineer with the aim of satisfying the needs of customers as well as penetrating the competitive international markets. Second, at the implementation stage, the expected actual cost is estimated from the viewpoint of value engineering. Value engineering is a series of procedures that firms use to help design products so that they can be manufactured at their target costs (Cooper 1995, 131).

Discussing target costing in terms of the survival triplet is important because it links product price and quality with functionality. Target costing uses price information
when considering the customers' quality and functionality requirements. Without this link there are no constraints on the target costing process and it is possible to set a target cost that is too low to enable the product to be manufactured with acceptable levels of quality and functionality. This link also differentiates between target costing and Kaizen costing. Unlike Kaizen costing, which focuses on reducing a product's cost through increased efficiency in the production process, target costing focuses on reducing the cost of a product through changes in its design. Therefore, target costing is applied during the design phase of a product's life cycle and Kaizen costing on existing products (Cooper 1995, 135). Together target costing and Kaizen costing contribute to the strategic management process of the company in the sense that they seek to reduce a product's cost over its lifetime and to engender a commitment to continuous cost reduction (Brausch 1994, 45).

The combination of JIT and target costing results in a Japanese management system based on the concept of zero inventory and zero defects and ultimately an integration of low cost and high quality. However, it should not be overlooked that this integration could not be implemented without longer working hours than those in the West and without a system of cheap parts supplied by subcontracting companies. Despite their legal rights, workers cannot enjoy a paid holiday due either to "much organisational pressure", or to fear of being accused of reneging on their collective responsibility (Nishimura 1995, 322).

Target costing is completely different from ABC, in the sense that the latter focuses on the reciprocal relationship between cost and cost driver (physical factors or activities). Target costing, on the other hand, is a method through which the manager makes better decisions and produces timely cost information for profitability of
products. Originally, this method had nothing to do with the horizontal management of an organisation (e.g., teamwork). Some American companies have tried to connect these two, so that ABC may be of use not only for decision-making but also for daily cost improvements (Nishimura 1995, 328). Other practitioners see target costing as a costing system beyond ABC. Brausch (1994, 49) saw the need for accurate product costing but, in and of itself, it does little to improve the firm's strategic position and does nothing to reduce costs. Instead, Brausch believes that target costing can play a major role in many firms outside Japan, which can accrue the benefits resulting from the application of strategic cost management.

### 4.3.3 Japanese management accounting for planning and decision-making

Ueno and Wu (1993) made a comparative study on the influence of culture in the budgetary control practices of the United States and Japan. Relying on the cultural dimensions addressed by Hofstede, their study examines the influence of Japanese collectivism on budgetary control as compared with American individualism. Their study is significant for distinguishing between the features of management accounting methods in both countries, but a deeper analysis may be required in order to reach a more definitive understanding of Japanese Management Accounting (JMA). Ueno and Wu conclude the Japanese collectivism puts more emphasis on team performance than on individual achievement, the latter being a characteristic of American budgetary control. However, in Japanese companies, "team-based work" is "a very threatening form of social control" for individual workers. Even if it is taken for granted that collectivism is strong in Japanese management, collectivism does not necessarily contradict the strict evaluations of individual performance (Nishimura 1995, 319).
JMA cannot be conceived independently of the Japanese strategic approach. In short, the Japanese strategic approach epitomises a battle of surprises, stratagem and innovation (Hariman 1990, 45). The Japanese used lean enterprises to compete against Western companies, with their larger markets and greater cumulative experience in technology, production and marketing. As a result, Japanese production styles, design and engineering approaches and personnel management philosophies are so different today that Western companies find it extremely difficult to fight back without adopting some of the management practices used in Japan.

Japanese firms have been lean longer than their Western counterparts and have extensive experience with the cost management systems that support lean competition. As Western companies following Japanese practices become lean, they will be forced to adopt Japanese cost management systems that are designed to affect all aspects of the economics of manufacture. Lean enterprises influence the supply of purchased parts, the design of the products, and the manufacture of these products. At each stage of the production and delivery process, there are techniques to reduce costs (Cooper 1995, 89).

One area that has received less attention in the Japanese success story is how the management systems of many companies reinforce a top-to-bottom commitment to process and product innovation. Although management accounting practices vary greatly depending on what industry you look at, several related patterns have emerged (Hiromoto 1988, 22). Like their Western counterparts, Japanese companies must value inventory for tax purposes and financial statements, but the Japanese do not let these accounting procedures determine how they measure and control organisational activities. Japanese companies tend to use their management control systems to support and reinforce their manufacturing strategies. A more direct link therefore exists between
management accounting practices and corporate goals (Hiromoto 1988, 22).

The Japanese have integrated their management accounting systems with their ideals, strategies and activities in a way which few Western companies do. Take, for example, the case of Matsushita Electric Industrial Co Ltd (Pascale & Athos 1983). Its management accounting system is characterised by the following features:

1. the company’s creed, principles and the seven spirits\(^2\) permeate the whole company, partly by way of the accounting numbers;
2. the accounting numbers are seen as the embodiment of the company’s ideals and activities, which include its goods, people and thoughts;
3. profit is not seen as an end in itself but as the result of honouring the rights and dignity of every employee of the organisation, as well as the good of society;
4. its accounting systems preserve coordination between differentiation and integration by connecting divisions to the central office by way of complex computer systems;
5. the company chooses a Japanese word which equates accounting with management.

The implication of the collection, analysis and interpretation of accounting data necessitate a managerial perspective;

6. by restricting the product lines of each division and linking production and marketing, each division is able to respond promptly to competitive pressures;
7. by giving each division full autonomy, with support in terms of advises and loans from the Treasury Department, the company creates companies within a company, in which the entrepreneurial spirit of each one of them is maintained;

8. The group controller and his/her staff serve the role of integrating agents between the sub-units of the organisation. For example, in periodic reviews the controller provides division heads with a fact base that speaks for itself. The group controller also provides goal-congruence advices.

The desire to push the pressure to manage costs deep into production systems can lead to innovative forms of cost management that require almost no management accounting to support them. One such approach is found in point 7 above, harnessing the entrepreneurial spirit of the workforce. This approach focuses on the workforce, not the products or production processes. There are two ways to harness the entrepreneurial spirit. The first technique creates pseudo-microprofit centers from cost centers and the second technique converts the firm into numerous real microprofit centers effectively converting them into small firms. When a group is treated as a profit center instead of a cost center, the leader's responsibility shifts from managing costs to managing profits (Cooper 1995, 279). This change has two effects. First, it causes the group members to treat revenues as part of their responsibility. Second, it causes the group to place increased pressure on members to reduce costs. This increased pressure to reduce costs is due to individuals taking an entrepreneurial stance with respect to their groups' performance. Management accounting plays only a minor support role in providing some of the information required to support these efforts at cost management, but even where management accounting plays a role in a micro-profit center cost management system, it is simplified to such an extent that accountants are not required (Cooper 1996, 30).

As we have seen from the harnessing of the entrepreneurial spirit, Japanese companies use accounting systems to motivate employees to act in accordance with
long-term manufacturing strategies, rather than to provide senior management with precise data on costs, variances, and profits. Therefore, accounting plays more of an “influencing” role than an “informing” role (Hiromoto 1988). An appreciation of the last point is crucial to the proper understanding of the Japanese economic miracle (Hariman 1990, 45). Western management accounting (WMA) is informing in nature, which is to say that WMA tends to see reality as given and fixed. Japanese management accounting (JMA) on the other hand is more influencing, so it tends to see reality as flexible and formless. WMA believes that a company has only one financial position in relation to the environment at a point in time, and that this financial position is always uniquely determined (Chambers 1974). In contrast, JMA recognises the possibility of transcendental truths (Wolferen 1989). This more flexible view of reality has enabled the Japanese to take a broader view of accounting numbers (Hariman 1990, 45). The role of accounting can be related back to Confucian Dynamism and man’s search for truth (Hofstede & Bond 1984). In the Western societies it is believed that there can only be one truth, whereas the Eastern societies are more tolerant of behaviour and opinions that differ from their own and therefore have as few rules as possible (see paragraph 2.3).

In 4.2.3. a number of paradoxes in financial objectives and an organisation’s core values were presented. They were: customer service levels, outsourcing, economies of scale, budgeting and planning, and short-term/long-term trade-offs. Some tools and alternative solutions for the above mentioned paradoxes can be found in Eastern management accounting. The paradox concerning customer service levels is almost completely unnecessary in a lean production environment where high quality, low-costs, zero defect products have the functionality customers demand. This issue is developed
further in section 4.3.

The problem of outsourcing in Western business has also been taken care of among Japanese businesses. As mentioned in section 2.3.2, zaibatsu and keiretsu characterises familism or collectivism and relates to the parent/child relationship that companies hold towards each other. This is also reflected in lean enterprises.

The issue concerning “managing by numbers” could be solved by introducing a total quality management (TQM) environment. When this approach is implemented in full it encourages organisations to use both physical information (about throughput, yield, quality and cycle times) and financial information (about the costs of inputs consumed, imputed prices on output produced, and also accurate spending and expense data) (Kaplan 1992).

The paradox concerning short-term/long-term trade-offs is also resolved in Eastern management accounting. The organisation is viewed as a group to which the employee belongs, rather than just a workplace comprising of separate individuals (see 4.3.2 about harnessing the entrepreneurial spirit). The organisation for which individuals work is also seen as an extension of their family, with employees making lifelong commitments to their organisation (see section 2.3.2). Thus, employees see that they are part of an enduring relationship.

As management accounting practice is changing in both West and East, the role of the management accountant will, as a consequence, alter too.
4.4 The changing role of the management accountant

"To the traditional accountant the changing business culture is making this call: Think differently or you'll be unwanted."

(Podesta 1994, 12)

The developments in Western management accounting and the lessons learnt from Eastern management accounting have changed the role of the management accountant. Management accounting is no longer the provision of information for internal decisions, but a total resource package for managers who must guide the organisation into viable patterns of activity in a changing environment (Kloot 1996, 27). From this holistic perspective, management accountants must undertake new roles to ensure their relevance to the organisation or adjust some of the more traditional roles. Firstly, as cost management becomes more critical to a firm's survival, new forms of cost management are required. Secondly, all the new opportunities that are emerging will ultimately change the role of the management accountant from a bean-counter to a more analytical, solution-giving management accountant. Thirdly, the increasing use of computers will also effect the management accounting profession. A fourth change is in performance evaluation from purely financial to the inclusion of non-financial values too. Lastly, the issue of accounting education will be addressed. Both the certifying institutes, academics and management accounting professionals must all adapt to the changes in the practice of management accounting and cost accounting to act as a support to organisations to be profitable and competitive.
4.4.1 The changing role of the management accountant in the area of cost accounting

With the emergence of the lean enterprise and global competition, firms face ever-increasing levels of competition. One of the crucial characteristics needed to survive is in the ability to develop sophisticated cost management systems that create intense pressures across the entire value chain to reduce costs. As cost management becomes more critical to a firm’s survival the individuals of the firm must become actively involved in the cost management process. Unfortunately, the growth in importance of cost management does not mean a similar increase in the importance of the management accountant. The end result is much wider use of management accounting information, but fewer management accountants (Cooper 1996, 26). As a consequence, management accountants will have to accept that their professional lives are going to be significantly altered over the next decade by the growing importance of cost management (Cooper 1996, 31).

By looking at how ABC/ABM, target costing, Kaizen costing and harnessing the entrepreneurial spirit are implemented, the changing practice of management accountants can be determined. Traditional costing systems have not always been the property of accounting and used to support the financial accounting process (Cooper 1996, 27). Management accounting was developed at the beginning of the century by engineers to enable managers to better understand the complex organisations that were then emerging. History, therefore, has reversed itself when cost accounting is again being taken over by engineers and the empowered work force. To demonstrate the increasing use of management accounting information, but fewer management accountants, cost accounting techniques from both Western and Eastern practice will be
illustrated from the management accountants perspective.

For ABC/ABM systems to be effective, everyone in the organisation must view the systems as cost management tools rather than accounting tools. To achieve this objective, the accounting or finance department must give ownership of the cost system to the users. While traditional cost systems are used to support the financial accounting process, a successful ABM system is owned by the functions and designed to support the needs of cost management. Consequently, there will be a reduction in the role of accounting in the management of costs, and the users will instead take a more prominent role in the design of the system. As a result of this decentring of accounting knowledge it is important for accountants to understand the processes of operations management and to interact more closely with the day-to-day activities of the firm. As operating managers are becoming more involved in the production of accounting information, the accountants are proving to be an essential link between the operating level, and the management board. This requires a commercial awareness and understanding of the firm's activities as well as accounting and financial knowledge (Burns 1996, 59). As a consequence, there is a growing importance for management accountants to understand the business and relate to other people's needs.

While comparing across cultural boundaries is dangerous, the point of using evidence drawn from Japanese practice is to demonstrate what the future might look like if Western firms becomes lean and adopt cost management techniques such as target and Kaizen costing. Therefore, the practice of cost management in Western and Japanese firms could easily converge over the next decade (Cooper 1996, 28). Before this occurs it is essential to realise that there are structural differences between Japanese and Western practice. Most Japanese firms have rotation programs for engineers designed to
expose them to other aspects of the business. These programs play a critical role in enabling the engineers (and other managers) to undertake the management accounting tasks associated with cost management. In Western firms, where such programs do not exist, management accountants currently perform many of these tasks. However, if Western firms adopt a more Japanese approach to cost management, which they might be forced to do in order to remain competitive, then there might be a change.

In target costing, the primary role of management accounting occurs when value engineering is being applied. At this point, management accounting can help by providing estimates of future manufacturing costs that product engineers can use in designing the firm’s new products so that they can be manufactured at their target costs. While this information is critical to helping the engineers design to target, the provision of these estimates represents a support, rather than a leadership, role (Cooper 1996, 29). This support role is highlighted by the fact that, in many Japanese firms, the accounting function has virtually no involvement in the target costing process. Instead, the accounting function is relegated to only setting the final target cost and ensuring that the products are manufactured for that amount. Management accountants will also monitor all component and assembly costs and if these are not in line with the final target costs, the accountants would notify cost design and engineering (Cooper 1996, 29). Other than providing some supporting information, management accountants are relegated to the end of the process.

In Kaizen costing, management accountants are not needed during the collection of information. This task can be more efficiently executed by the users themselves. The decentralisation of the management accounting process to the manufacturing workforce helps empower the cost management process and subsequently enables cost
management to be better achieved. As a consequence, the only role for the management accountant is usually to install the system. Of the remaining tasks, including the analysis of cause and effect and taking appropriate action, most are taken care of by the workforce (Cooper 1996, 29).

Cooper (1996) summarises some major changes in the practice of management accounting. First, as cost management becomes more important, so does management accounting. Many cost management techniques rely heavily on management accounting information. These techniques often require cost information that is currently not collected, requiring the firm's cost systems to be upgraded. Second, empowering the cost management process requires decentralising the management accounting function. The collection of accounting information on the shop floor shifts from the accountants to the members of the workforce who use that information. Workforce collection ensures that the relevant information is collected and acted upon in a timely manner.

Third, the management accounting function often adopts a supportive and monitoring role, not a more active one as many have suggested. In target costing, the accounting department is only involved at the very end of the process. Accountants have the responsibility of ensuring that as products enter production, they meet the assumptions underlying their target costs. The rest of the target costing process is the responsibility of marketing, production, product engineering, and other functional specialties. While management accounting plays an important role in target costing, that of the management accountants is only small.

Fourth, many cost management techniques do not rely to any extent upon management accounting information. Such systems use organisational forces to achieve cost management. It is unlikely that a management accountant would be the most
effective person to introduce such a system. Consequently, cost management is a broader discipline than management accounting and should be embraced by everyone in the firm.

Cooper (1996, 31) suggests that management accountants should adopt a more active role in the management process but only a few highly skilled management accountants will be able to adopt such a role. For example, as Kaplan (1995, 13) suggests, the new management accountants must:

(b)ecome effective members of the management team, they have to spend less time dealing with financial accounting, auditing, and tax issues. More of their time must be spent learning about product and process technology, operations, systems, marketing, strategy, and the behavioural and organisational issues relating to the implementation of new systems and processes.

Yet how many such individuals does a single firm require? Most management accountants will find themselves at risk of being at a career dead-end as the management accounting function is decentralised and the demand for their skills drops. For management professionals there are only two alternatives to choose from concerning their future role in cost accounting, one of them being to maintain the status quo and be convincing about the valuable role of the management accountant. The alternative response is to take management accounting to the user and actively support the cost management process. Included in the supporting role would be to train as many individuals in the firm as possible in the use of the appropriate management accounting techniques to help those individuals undertake cost management programs. This will ultimately lead to a decentralisation of the management accounting function, and cost management will be practiced by the workforce, not by the management accounting specialist. A last supportive role would be to develop new management accounting
systems to support cost management programs as they evolve. However, once the system is designed, much of the day-to-day management accounting can be transferred to the workforce.

4.4.2 From beancounters to ‘new management accountants’

In the past management accountants have had many names such as beancounters, score keepers, information gate-keeper, to imply that they supposedly did not understand the business and view everything in terms of accounting numbers. Traditionally management accountants have had the role of holding the purse strings, to exert control and moderation, test and stretch business, to challenge the business in performance terms, to give objective views, to make sure the business does not take on unwarranted risks and to give stress checks to new ideas (Weaving 1995, 56). Quite often there have been conflicts between management accountants and managers concerning the state of the business. Lyne and Friedman, in their study about the implementation of activity-based techniques, concluded that “it was clear that many managers did not trust the accounting data produced by their management accountants as it did not correspond with their intuitive perception of the business” (1996, 34). Neither were the managers pleased with how the accounting information was used when it produced a ‘blame’ culture, where the criticism of the accounting department was seen as destructive instead of constructive.

According to Lyne and Friedman (1996), the implementation of activity-based techniques has brought about a distinct change in the image of management accountants. In their study they found that there are still management accountants who see themselves as beancounters. It has been argued by management accountants that even if
their duties involve using spreadsheets and computer printouts, it is still a way of counting beans, only electronically (Baker 1994, 29). Others believe that the phase of calling management accountants beancounters is over. The new ‘breed’ of management accountants are starting to dominate companies that have implemented activity-based techniques (Lyne & Friedman 1996, 35). These ‘new management accountants’ are in many respects quite opposite to the beancounters and they are keen to shake off this image. Some of the characteristics of the new management accountants are: a clear understanding of the business imperatives; they often pride themselves on the useful information they provide for operational managers; they do not allow accounting numbers and procedures to dominate; they spend significant amounts of time with operational managers, often working in teams with a wide range of personnel; and in some companies they are physically located close to operational managers.

As stated above, the role of the management accountant in cost accounting, such as ABC, target costing and Kaizen costing will decrease as a consequence of decentralising the management accounting process and empowering the workforce. At the same time the use of management accounting information will increase. These changes might be true once the system is up and running. Many management accountants, however, have been the instigators of activity-based techniques as part of their agenda for changing the beancounter image, while others simply grasped the opportunity provided by the implementation of activity-based techniques to further these ends. So even if there is no future for management accountants in cost accounting, there is an enormous opportunity in the implementation of it. This has also led to a change in the image of management accountants, mainly because activity-based accounting data is perceived as relevant by both accountant and operational managers. The implementation
will also bring more interaction between management accountants and operational managers which greatly improves trust and understanding between the two professions (Lyne & Friedman 1996, 35).

Lyne and Friedman also commented that ‘new management accountants’ exist in firms where activity-based techniques have not been implemented. In these instances other techniques and practices will be used to build the relations with operational managers that are essential to increase trust and to break-down the beancounter image.

There is a warning for management accountants where activity-based techniques will be implemented. There have been studies done that have shown that ABC has been implemented with only minor involvement of accounting staff. In these cases the projects had been instigated and led by non-accountants. Operational managers claimed that other managers had no difficulty in understanding the techniques and activity-based data and were quite capable of successfully implementing without major involvement of management accountants (Lyne and Friedman 1996, 35).

The danger here for management accountants lies in the demand by the operational managers for better quality information to enable them to meet the challenges of an increasingly competitive environment. If management accountants do not respond to this demand, then other managers may resort to providing the data they need themselves. When this happens, accountants could be left with only a minor role to maintain an accounting record-keeping system (Lyne and Friedman 1996, 35).

4.4.3 Changes in the area of information systems for management accountants

With the development of the computer the role of the management accountant has been affected enormously. Instead of writing long worksheets and examining
handwritten journals as a daily routine, the accountant now examines spreadsheets, computer printouts, and transaction vouchers. Before 1980 the management accountant’s participation in technology decisions was considerable, but with technological complexity came the isolation of the information technology function (Gawiser 1994, 42).

For those management accountants that are involved in a new cost accounting project such as ABC projects, or part of the management team where key business decisions are made, a new area of management accounting has to be introduced. It has been suggested that one of those areas is information systems. Decision support systems and executive information systems now perform many of the tasks that once were part of accountants’ daily routines. As a consequence, information systems have eliminated many of our number-crunching tasks. Unfortunately, many accountants have only seen the elimination of accounting tasks and not the opportunities which have arisen with information systems. This has resulted in a passive involvement with the development of information systems with accountants believing only systems analysts design the systems (Baker 1994, 29).

Instead of being passive, accountants should play a more active role in ensuring that effective communication exists throughout the organisation. Systems analysts could therefore be viewed as teachers or consultants instead of experts. Gawiser (1994) used a good example of what could happen if information technology decisions are dominated by the chief information officer. A large pharmaceutical company acquired a new information technology system, and by the time the chief financial officer had chosen the software the chief information officer had already chosen hardware, an operating system, a database management system, and a computer language. The company ended
up seriously constrained in its choice of software.

It is important that the traditional passive role of management accountants and chief information officers change to prevent companies taking the wrong decisions. Before management accountants can reverse the trend, they need to get involved and participate fully in information technology decisions. First they must understand the information technology decision process and how to manage it. Gary Gagliardi, author of *Client/Server Computing: Killing the Mainframe Dinosaur and Slashing Runaway MIS costs*, has come up with four risk factors concerning information technology acquisition pitfalls; technological, operational, economical, and political (in Gawiser 1994). The technological risk lies in the technology not working, or that the proposed solution is at the end of its life cycle and soon will be obsolete which could have strong implications long-term. The operational risk is that the technology does not work for your company, or on a more long-term basis the system will not be able to adapt with the company as it, and the world, change. The company must evaluate whether the technology selected can change to meet future challenges. The economic risk lies in the issue of costs versus benefits. The long-term risk is that the costs of supporting and adapting the system are hidden and are not estimated, which is one of the most common cost justification errors. It is difficult to know what might happen in the future, but is it better to have an incorrect estimate than to fail to consider potential costs. The final risk factor, political risk, is shared by every department involved in the decision process. The short-term risk is that employees are not happy with the system and will not support it, and the long-term risk is that external parties of the organisation will be unhappy, such as customers and vendors.

Gagliardi and Gawiser both argue that all four risk factors can be reduced
significantly through the management accountant's involvement in the key segments of the decision process: proposal evaluation, needs analysis, vendor selection, risk management, and negotiation and implementation (in Gawiser 1994, 43).

During the last two decades, Scandinavian countries have used the *participatory design* approach to help set up a new computer system in an organisation. The difference between traditional systems development process and participatory design is that all users of the system must be involved in the development of the information system. Here the systems analysts play a more supportive role as a systems expert making recommendations, providing advice and teaching techniques. The decisions are, however, made by the managers and non-managers (Carmel, Whitaker & George 1993).

There are several benefits of the participatory design of computer systems: the system chosen is more effective; the system chosen is adapted better to the user; communication is enhanced throughout the organisation; and both the users and system experts learn to perform better (Baker 1994, 30). All users, including management accountants, develop competence, they understand their influence on the use of technology, and they understand technology's influence on their roles in the organisation. If management accountants take an active role in system design they can create a new role for themselves and shed the beancounter image. Management accountants will also have better control over communications and the accounting systems will be better suited and more effective for accountants.

Using the participatory design idea might seem easier to introduce in Scandinavia than in the United States or Australia, mainly because of the egalitarian culture of the Scandinavian countries (see 2.3.1 Swedish Cultural Differences where Sweden scored an extremely low value on masculinity). Even though the participatory
design concept might not be suitable to introduce in an organisation in Australia, management accountants must still take the initiative and become active in information system designs.

Considering the historical background to the involvement of management accountants in cost accounting, accountants should be the obvious choice for leadership in the design of new cost accounting systems. Even if accountants are not involved as much when new production strategies, such as JIT, are introduced, management accounting has been used to develop target costing. According to Baker (1994, 31), if management accountants get involved in the design of information systems it will be like opening a door to a range of different roles:

- **Internal control.** Instead of passively allowing the systems analysts to design the company's electronic data interchange (EDI) the management accountant should become involved in the implementation of new systems. If the systems analysts are treated as consultants, the management accountant can safeguard assets warehoused in old systems while new systems are created, and ensure the efficiency and effectiveness of both the new and old systems while the new system is being implemented.

- **User assistance.** As active participants in information system designs and implementation, management accountants should be the teachers of the system to the users and care about the data integrity. Therefore management accountants take the role as information caretakers as well as the role of information caregivers.

- **Communication liaison.** Management accountants can help communications between data-entry personnel, designers, and managers and ensure that organisational plans are accomplished regardless of the type of information system implemented.
• **Closing the gap.** In system design there are gaps among user goals, corporate goals, and the systems that result from the design process. The challenge for corporate accountants is to identify any gaps and to understand why they exist by auditing the system design process. Gaps will exist because user goals and corporate goals are not communicated effectively to system designers.

The first step for the management accountant to become an active participant in system design and implementation is to become a member of a steering committee. Only the most knowledgeable persons which are indispensable to day-to-day operations and possess the deepest and broadest understanding of the organisation’s information systems are needed in the steering committee. Therefore, the management accountant might need to re-educate through continuous education offered by professional associations and institutions.

### 4.4.4 The role in performance evaluation for management accountants

For many accountants in Western countries, the critical test of a business’s success has traditionally been shown through financial indicators. With new innovations, such as the balanced scorecard, the management accountant must supplement the traditional financial measures with the drivers of long-term financial performance. As a consequence, management accountants are expected to identify measures, including financial measures, in areas concerning customers, internal business perspective and innovation and learning perspective.

The balanced scorecard focuses on breakthrough output targets instead of seeking narrow process improvements. The popular fad of benchmarking is, unfortunately, concerned with processes rather than outputs. This is one of the main
distinctions between them. In terms of the role of the management accountant, Kaplan and Norton (1993) uses FMC Corporation to show how the role might change. Historically, the company had two corporate departments involved in overseeing business unit performance. Corporate development was in charge of strategy, and the controller’s office kept the historical records and budgeted and measured short-term performance. Strategies came up with five- and ten-year plans, controllers one-year budgets and near-term forecasts. Little interplay occurred between the two groups. But the scorecard now bridges the two, and it has been suggested by Kaplan and Norton that perhaps the corporate controller should take responsibility for all measurement and goal setting, including the systems required to implement these processes (1993, 147). The new corporate controller could be an outstanding system administrator, knowledgeable about the various trade-offs and balances, and skillful in reporting and presenting them. This role does not eliminate the need for strategic planning. It just makes the two systems more compatible. The scorecard can serve to motivate and evaluate performance, but the primary value is to join together strategy development and financial control. It could also unify strategic planning and operational budgeting, by performing them simultaneously. Included in the forecasts will be financial targets plus customer performance, internal process capabilities, innovation, employee learning, improvement. Some researchers even claim that the continued relevance of management accounting depends on the management accountant’s ability to provide non-financial performance measures (Kloot 1996, 27).

4.4.5 Changes in the area of management accounting education

The changes in the management accounting sub-culture will have quite
significant implications for management accounting education. Management accountants increasingly need to be more commercially aware and to have the ability to relate this awareness to accounting measurements and other performance indicators. The role of the management accountant has undergone a striking metamorphosis: from number-crunching preparer of financial statements to high-level decisions-support specialist (Siegel & Kulesza 1996, 44).

Education in management accounting must explain the different uses of the conventional management accounting techniques described in most current textbooks and where such techniques relate to other sources of information and other decision making tools. Furthermore, education must address the importance of information technology and reflect the changing roles of the management accountant, as described above. This education is important not only in the training of student management accountants, but also in the continuing education of practicing management accountants (Burns 1996, 60).

Management accounting is a profession in transition, and it has been for the last five to ten years. Advances in information technology, competitive pressures, and corporate restructuring due to re-engineering have resulted in a change for the management accountant. Cooper (1996) believes that the need for management accountants will fall while the need for management accounting will rise. Cooper added that the management accountants who survive this transition will be highly skilled in systems design and implementation, change management and strategy, as well as being knowledgeable about cost management and management accounting. Such management accountants will thus be very important members of the management team.
4.5 Some consequences of integrating West and East management accounting

The negative shift in economic performance during the 1980s up until today has been a stimulus for a search for change or innovation (Firth 1996, 630). The notion of "institutional isomorphism" has been developed by sociologists and organisational theorists which holds that institutions become more similar with one-another in part because management innovations are broadly diffused and become nationally adopted (DiMaggio & Powell 1983). DiMaggio & Powell (1983) discuss three mechanisms through which institutional isomorphic change occurs, namely coercive, mimetic, and normative. An example of coercive institutional isomorphism in an accounting context is the often observed requirement that subsidiary companies adopt parent company accounting practices, performance evaluation policies, and budgetary plans. A mimetic process involves one organisation modeling themselves on another organisation, especially if that other organisation is perceived as being successful. Normative processes stem from professionalisation via the education system and via professional networks (Firth 1996, 631).

Orru et al. (1991) argue that diffusion of management innovations exist within nations but may differ across countries. In terms of diffusion of information on an international basis, there is little literature on management practices or management accounting practices. There is no question, however, that the transfer of managerial innovation takes place and one only has to look at the recent North American and European preoccupation with analysing/copying/adopting Japanese management systems (Firth 1996, 631). Coincidently, this has created difficulties in the interpretation and application of accounting.

Even though the intent of cross-national diffusion has been to improve
management and management accounting methods, so as to enhance corporate productivity and efficiency, it has not always been achievable. The lack of success in integrating East-West business and accounting practices, according to Velayutham and Perera (1996, 65), has been attributed to institutional and cultural differences. This view led to various publications on how Western companies should change the organisational culture to suit the management techniques of the East (e.g. Peters & Waterman 1982). It is, however, most important to clarify the fundamental features of excellent management at present (including Japanese management) as well as cultural conflicts. Comprehension of these features will provide every country with the basis on which to establish management accounting suitable for its culture. There are relatively few studies examining the diffusion of accounting techniques, and much of it has addressed the adoption of financial accounting concepts. There is comparatively little literature on the diffusion of management accounting ideas and international acceptance (Firth 1996, 632).

Another controversial issue concerning diffusion, is that Western managers and academics have accused Japanese managers of keeping their cost management systems hidden. This seems unlikely since the Japanese have consistently demonstrated an amazing openness in sharing their innovations to others. A simpler and more compelling explanation is that the Westerns who visited Japanese firms simply did not know what questions to ask or how to ask them (Cooper 1995, 90). The same thing happened with Hofstede (1980, 1983, 1984) and Hofstede and Bond (1988) with the dimensions of national value patterns. It was not until a questionnaire was developed by Chinese social scientists that a new dimension was identified concerning the national culture of Asian countries. Hofstede and Bond realised that there must be some influence of the
researchers’ own culture on the questions asked (see section 2.3). Therefore the questions that Westerners are most likely to ask first about Japanese cost management practice naturally reflect their own experiences, which have been shaped by Western cost management practices. Unfortunately, the forces that have shaped Western and Japanese practices are different to each other, making it difficult for Western and Eastern management accountants to communicate effectively (Cooper 1995, 90).

4.6 A proposed theoretical framework for management accounting and culture

In Chapter 3, Gray’s (1985) framework for societal values and the accounting subculture was examined. Gray explored the relationship between cultural factors and accounting practices in an international context, and proposed a framework where the mechanisms by which values at the societal level are related to the accounting subculture which directly influences accounting practice (see Figure 3.1). Figure 3.1 is an adaptation and extension of the model relating to the stabilising of societal culture patterns proposed by Hofstede (1980). In Figure 3.1, Gray identified four accounting values that are affected by societal values, and in turn, impact on accounting systems. In Figure 4.2 Gray’s (1985) figure of “societal values and the accounting sub-culture” is shown.
Gray’s framework refers to financial accounting, and the accounting system in Figure 4.2 is the national accounting system of a country. The researcher proposes an extension of Gray’s framework to apply it to management accounting and the accounting system of an organisation. In the researcher’s adaptation of Figure 3.1, the institutional consequences, which do not apply to management accounting, have been removed. Four significant value dimensions of management accounting roles are suggested, which impact on management accounting systems used in practice (see Figure 4.3):
The four dimensions of the role of management accounting which impact on management accounting systems used in practice are:

1) **Planning** - The management accounting role of *planning* refers to an organisation’s budgeting system and decision-making system (see sections 4.2.2 and 4.3.3). **Planning** ranges from short-term planning to long-term planning.

2) **Controlling** - The accounting role of *controlling* includes performance evaluation. The core values of which are important to the company are imbedded into the culture of the company as opposed to having only financial objectives. It, therefore, ranges between purely financial key performance indicators to including non-financial
indicators (see section 4.2.3).

3) **Measurement** - Measurement involves cost accounting where the age old dilemma between accuracy of measurement and the cost of not being as accurate is the issue (see sections 4.2.1 and 4.3.2).

4) **Decision-making** - This refers to the decision-making role of the management accountant, where there is a preference for accountants playing a more influencing role as opposed to informing role (see section 4.4).

As in Gray’s study, it should be emphasised that in this study “there is no suggestion that these are likely to be the only roles involved as there is no doubt that what is proposed here is very much an attempt to simplify what is a highly complex situation across countries”. However, it is argued that these roles seem likely to be related to societal values and to strongly influence the authority for management accounting systems; budgeting, cost accounting, performance evaluation and the management accountant’s empowerment.

For the purpose of analysis, it would seem useful to consider the dimension of planning as relating to budgeting for management accounting systems, controlling as relating to performance evaluation, measurement as relating to cost accounting and decision-making as relating to the accountant’s empowerment.

It should also be emphasised that when dealing with management accounting, the researcher must take into consideration both national culture and organisational culture. Therefore, with multinational corporations, both the organisational culture of the head office and the national culture of the country where the subsidiary is located need to be taken into consideration when examining the subsidiary. As a consequence, each company world-wide can have it’s own individual combination depending on the
number of different cultures (whether national or organisational) that are affecting it.

So far the accounting sub-cultures have been identified, but how do they relate to societal values and how do they impact the development of organisational management accounting systems?

(1) Planning: The management accounting system, such as budgeting and planning, is influenced by the management’s preference for short-term or long-term strategies. A major controversy in many Western countries, for example, surrounds the issue of whether the management accounting profession should always aim for planning on a long-term basis. In Eastern countries this is not necessarily considered a problem at all, since most companies in Japan have integrated their management accounting systems with their ideals and strategies.

Planning is a value dimension which would seem to be related to the societal value of Confucianism, which deals primarily with long-term orientation versus short term orientation.

(2) Controlling: This management accounting role has significance for a corporation’s performance evaluation system. When controlling a company, a range of different performance indicators can be used ranging from purely financial performance indicators to more “softer” non-financial indicators. In Western cultures the management accounting system has been dominated by profit, as opposed to Eastern cultures where management systems, such as TQM, involve both physical information and financial information when controlling an organisation. Making a profit is, nevertheless, a fundamental professional accounting attitude in Western organisations.

Controlling is a role which would seem to have a strong positive relationship with uncertainty avoidance, following from the perceived need to avoid conflict and be
competitive and to preserve security. At the same time, there is likely to be a positive relationship with individualism when profit is the key performance indicator, whereas for non-financial indicators there is a positive relationship with collectivism.

(3) Measurement: This would seem to be a significant role because the importance of choosing how accurate to measure costs, variances and profits will affect the management accounting system. In Western organisations, management accountants are attempting to provide senior management with precise data concerning overhead allocation. In a Japanese organisation the managers worry less about accurate cost allocation than about how the system affects the cost-reduction priorities of managers and workers. As a result, Japanese management accountants use allocation techniques that executives in a Western organisation might dismiss as simplistic or even misguided.

Measurement is a role which would seem to have a strong positive relationship with uncertainty avoidance, following from the perceived need to adopt an accurate costing approach to cope with the uncertainty of future events and thereby reduce anxiety and stress. Uncertainty-avoiding cultures try to minimise the possibility of unstructured situations by adhering to strict rules, such as an extremely accurate cost accounting system. Uncertainty-accepting cultures are more tolerant of cost behaviour and have as few rules as possible. This is probably moderately supported by the power distance relationship with its concern for order. There is also likely to be a strong negative relationship with individualism which tends to be associated with increased flexibility. This may well be supported to a medium degree, by the masculinity dimension which emphasises performance and material success.

(4) Decision-making: This would seem to be a significant value dimension because depending on whether the management accountant has an influencing or informative
role, the management accounting system will be affected. In many Western organisations, the management accountant has traditionally had an informative role, where the numbers have been given to management which makes a decision. In other organisations, the management accountant is sometimes part of the middle-management team and has an influencing role when making decisions.

Decision-making is a role which would seem to be related to the societal values of individualism and uncertainty avoidance. A strong positive relationship with individualism seems likely, following from the emphasis on personal opinion. At the same time, there would be likely to be a strong negative relationship with uncertainty avoidance, following from the inherent flexibility of professional judgments. This would seem to have moderate support from the power distance dimension with its emphasis on an ordered hierarchical society.

4.7 Conclusion

Management accounting has changed dramatically during the last decade. Some of the most affected areas are cost accounting, accounting for planning and decision-making, and controlling. As a consequence of the difference in national culture and organisational culture around the world there have been two distinct separate developments of management accounting. One of them is represented by the Western countries with the developments of ABC, ABM, backflush accounting, throughput accounting, life-cycle costing, strategic management accounting, key performance indicators with its balanced scorecard. The second group of developments is represented by the Eastern countries, but mainly Japan. Some of the developments here are JIT, quality control, TQM, target costing, value engineering, and Kaizen costing. Many of
these Japanese management accounting and management techniques have been implemented in full or in part by organisations in the West.

As a consequence of all the new developments, the role of the management accountant has changed. It has been argued that with the introduction of new costing systems such as ABC, target costing and Kaizen costing the use of management accounting information will increase but the role of the management accountant will fade as a consequence of decentralising the management accounting process and empowering the workforce.

Secondly, the traditional role of management accountants as beancounters is changing. Managers are no longer asking accountants to provide solely numbers, but also to take a more active and analytical role in the decision-making process.

Thirdly, with the development of computer systems the role of the accountant has changed from handwritten worksheets to examine spreadsheets. This will result in a reduction of duties for the management accountant but it can also be seen as providing a new range of information technology opportunities. Management accountants should be encouraged to take a proactive role in the acquisitions and implementations of accounting information systems to improve internal control, user assistance, communication liaison and closing the gap between the organisation’s goals, user’s goals and the design of the computer system.

Fourthly, with the increasing use of financial and non-financial key performance indicators, the management accountant can participate in motivating breakthrough improvements in such critical areas as product, process, customer and market development. This is done through the balanced scorecard which provides executives with a comprehensive framework that translates a company’s strategic objectives into a
coherent set of performance measurements.

Lastly, those involved in management accounting have to accept that their professional lives are going to be significantly altered over the next decade. The changes in management accounting practice will affect both professionals, the certifying institutes and management accounting academics. There will have to be some adjustments made in the management accounting education to respond to the ever changing developments in accounting practice and the role of the management accountant.

The significance of culture is far from clear and has been a relatively neglected issue in the development of ideas about management accounting classification. In this section, a theoretical framework for analysing the impact of culture on management accounting practices has been proposed, using Hofstede’s (1980) societal values and Gray’s (1985) accounting values. Different roles comprising the management accounting subculture have been identified, i.e. planning, controlling, measurement and the decision-making role of the management accountant. These have been related to societal values with the result that relevant organisational groupings by culture area could be identified as a basis for testing the relationship between culture and management accounting practices.

As have been shown by this chapter, Western and Eastern management accounting systems have developed in different directions, but may now be converging. With the increasing competition around the world, organisations are now trying to borrow management concepts and management accounting techniques from other countries. This has led to successful diffusions concerning techniques such as JIT, but unsuccessful results in the diffusion of the entire cost accounting system or management
accounting system.

By looking at the different cultures of management accounting in Western and Eastern organisations, a theoretical framework has been proposed. Four management accounting roles were identified: planning, controlling, measurement and decision-making. In the next chapter, these roles will be studied in detail when a one-company case study is performed on Volvo, Australia.
CHAPTER 5
THE INFLUENCE OF CULTURE ON
MANAGEMENT ACCOUNTING

5.1 Introduction

This chapter provides a brief history of Volvo and describes management practices and philosophies which have given Volvo an organisational culture that has allowed it to develop a unique identity in the luxury car market, both in Sweden and throughout the world. The influence of this culture on management accounting practices in Volvo Australia, a wholly owned subsidiary of Volvo Sweden, is then examined. The selection of a foreign company with an organisational culture which is consistent, enduring and has very direct origins in Sweden, a country which Chapter 2 showed differed significantly to Australia on some of Hofstede’s dimensions of culture, has provided the opportunity to offer some limited and tentative findings on the influence of culture on management accounting. Whereas the limited nature of the study does not allow any clear conclusions on a causal relationship between management accounting and culture, the study does show a degree of consistency between management accounting and national culture.

As this study progressed a number of issues were highlighted and related back to culture, namely:

- the cost accounting methods used;
- the roles played by the management accountant within the finance department and also within the company;
- whether the management accountant plays a passive or active role in the implementation and use of accounting information systems;
• the role of financial versus non-financial information and how corporate performance evaluation is carried out;
• whether the company is managed almost exclusively on numbers or more fundamental values, and how this is reflected in the budgetary procedures.

Information on the practice of management accounting within Volvo Australia was collected through interviews which took place during a week in April 1997. All the interviews were recorded and full transcripts produced (see Appendix 7). These formed the basis of the analysis in this chapter. A small amount of follow-up work was carried out to clarify issues raised in the original interviews. Thus, a second visit to Volvo and various telephone conversations were made.

Currently, most of the research into cost accounting techniques and management accounting has been by means of questionnaire or case study. The objectives of this study could not be met by use of a general questionnaire which provides the respondent with little room to manoeuvre nor are interpersonal aspects easily revealed with questionnaires. A longitudinal case study would have given a more thorough insight into some of the issues but as a consequence of the time limitation of the study this was not feasible. The chosen method was to visit a company, Volvo Australia in Sydney, and interview company personnel who are involved in management accounting. The interviews were semi-structured, by means of an interview guide (see Appendix 6), with the interviewees encouraged to talk widely about any matter they thought might be relevant or interesting for the research.

The restriction of the study to one site precludes the results being generalised to all companies, though other companies may see similarities between themselves and the study and be able to draw useful conclusions.
5.2 Introduction to the organisational culture of Volvo, Sweden.

When the company started in 1927 in Gothenburg, Sweden, Volvo’s founding fathers assumed that Sweden’s engineering capability would help the company take a share of the rapidly growing market for automotive transportation. No one had previously succeeded in mass-producing cars in Sweden and the well-established importers were already competing fiercely for customers.

Initially, Volvo concentrated its total production on the four-cylinder OV4. The ‘OV’ stood for oppenvagn (or ‘open car’). Shortly after this, the PV model followed (standing for Personvagn or private car, i.e. sedan). This early sedan boasted a relatively opulent interior with an ashtray, a flower vase and curtains on all windows! Sales of both models were lethargic, but in 1928, 24 Volvos were sold in neighbouring Finland and this was the start of a successful export business (Davis & Davis 1990, 10). In spite of limited exports, their venture grew as Sweden developed into an industrialised country (Kinch 1993, 15).

Volvo started producing its next series in 1929. The PV650 had several unusual and innovative features, one of them being reclining front seats. The six-cylinder engine was developed from the ‘four’, and subsequently increased the car’s ability to travel at speeds in excess of 100 km/h. The year of its launch coinciding with the Great Depression had adversely affected Volvo’s sales of the PV650. Volvo persisted with its production despite the tough times and by 1931 Volvo had an eight per cent share of the Swedish market.

A succession of Volvo models appeared throughout the 1930s, based mainly on the six-cylinder chassis. After World War II Volvo emerged with its most
successful model yet: the PV444 (Davis & Davis 1990, 13). This model became the first Volvo to be exported in high volume.

Volvo’s growing market share was attributed to a stable, competent, and dedicated workforce. In 1956 the company entered a new phase by introducing the 120 series, and at the same time increasing its export potential dramatically. The company decided to enter the competitive United States market, and also to establish manufacturing plants in Europe. In the fifties, when cars accounted for more than 70 percent of sales and 80 percent of profits, Volvo expanded their product line to include trucks, buses, industrial machines, farm equipment, marine engines, and jet turbines for the Swedish Air Force. By the late sixties, the company had become an internationally oriented organisation, with new subsidiaries and important manufacturing facilities in Europe and beyond (Gyllenhammar 1977, 10).

The company’s continued growth and success can be directly linked to management’s strong commitment to quality. Volvo’s dedication to quality control dates from the early 1930s when a separate department was created to ensure that all quality standards were met. As it left the line, each car was driven on a 12 km circuit before the body was put on. It was driven again afterwards for a double check (Davis & Davis 1990, 10). Volvo’s pioneering of the quality control concept has been a fundamental element in its culture ever since.

Throughout the sixties Volvo was a tightly centralised organisation, controlled by a president in a three-man executive committee, assisted by a large head office staff. Then, in 1969, as a direct result of its international expansion, the company introduced a more decentralised structure to afford more importance and concentration of resources to products other than passenger cars. Subsidiary companies outside Sweden continued to report to the member of the executive
committee responsible for marketing (Gyllenhammar 1977, 11). The oil crisis in 1973 and the recession that followed proved the value of the reorganisation. The company emerged with a reduced, but still healthy profit, and, for the first time, the majority of the profit came from non-car operations (Gyllenhammar 1977, 11).

To maintain its traditional popularity and expansion, Volvo chose to increase export and build further volume and profit in the non-car divisions. Consequently, Volvo went through a major reorganisation in 1972. Headquarters personnel was reduced from 1800 to 100 people; most of the former headquarters people went into profit centers offering consulting services. Each major product group, such as trucks and buses, became an independent division, and all major market units became independent profit centers within the divisions. The new organisation took on a much more international identity, acknowledging the fact that more than 100 countries provided its income. To balance the income from the dominant car activities, major investments were made in trucks, buses, and industrial equipment (Gyllenhammar 1977, 11).

This period signaled the start of changes in Volvo’s production strategy, company philosophy, labour management relations and engineering culture. This restructuring was inspired partly by international pressures, but more by domestic market factors. A necessary reaction to the international economic crisis of the late seventies, namely a global increase for demand in flexibility was to expand its operations. The conservative Swedish government of the day embarked on a policy of depreciating the national currency in an effort to encourage investment and employment by means of a general profit boost. A profit boom was experienced by Swedish firms. Companies like Volvo used their expanded revenues for mergers and acquisitions, therefore stepping up their international operations. However, what
made Sweden a unique climate for change was the simultaneous pressure exerted on manufacturing industries by product and labour markets.

The increase in demand for flexibility and quality made Swedish companies (especially export ones like Volvo) more dependent on a stable and committed workforce. The 'blue collar blues' was a term used to describe the global trend in manufacturing industries for workers to revolt against 'Taylorised' industrial jobs. Volvo started to experience workforce problems of absenteeism and had trouble recruiting stable and committed employees. These recruiting difficulties can be attributed to the fact that throughout the 70's and 80's unemployment did not exceed 3% (Berggren 1992, 11). There was an extremely high demand for workers skilled or unskilled. The assembly line production industry had no way of providing incentives for their employees as was the case in Japan and America, due to the Swedish system of 'solidaristic wages', which kept wage differentials to a minimum. To combat this the CEO of Volvo, Gyllenhammar, created new production systems adapted to human demands, in an effort to 'humanise' the workforce. His effort was complemented with considerable input by trade unions and employees from the shop floor. The domestic labour market and its exacting demands for changes in the technical aspects of the production process aimed to alleviate mechanical pacing and to make reintegration of fragmented tasks possible. Volvo management initiated these changes via the CEO Gyllenhammar committing the company to new 'humanised' production systems. The Volvo group played a pivotal role in the search for alternative production systems, setting up experimental type production centers with new auto assembly systems. These factories included Kalmar, L.B. and Uddevalla.
Like other auto manufacturers, Volvo had a production system that was technologically oriented and planned in detail, using the system of Methods Time Measurement (MTM). A very distinct assembly design and work organisation developed at Volvo with two distinct features. For one, different alternatives were tested to obtain more flexible work structures and more attractive jobs. One alternative was a complete dissolution of the assembly line by means of parallel dock assembly, in which small teams of skilled workers built complete cars or trucks. For another, the traditional shop-floor hierarchy was replaced by group work, in many cases involving considerable autonomous decision making and thus a substantial reduction in the vertical division of labour. The Swedish model differed to similar innovations in Japan, however, in four important respects (Berggren 1992, 7). First, the organisational changes were strongly linked to changes in the production arrangement, which aimed at creating conditions whereby functional groups would have some technical autonomy. The work teams at the Japanese transplants, by contrast, were organised directly on the line.

Second, the Swedish version of teamwork was marked by a desire to increase the workers' organisational autonomy and scope for independent decision making. The teams often selected their own leaders or group representatives and performed tasks that earlier had been done by foremen and industrial engineers.

Third, the role of first-line management was changed from that of having direct control to coordinating, planning, and supporting. At the transplants, by contrast, teamwork usually went hand in hand with a strengthening of the managerial structure.

Fourth, in Sweden, the Metal Workers' Union strongly committed itself to the development of this new organisational form. It was especially interested in
strengthening the teams' decision-making prerogatives, as well as their prospects for developing collective competence.

New plants, such as the Kalmar plant, were designed to break up car assembly into working groups of about twenty people. This was a very non-traditional way of designing a plant, since it did not involve assembly-lines. The non-traditional plants cost a little more to build than traditional factories of similar size, but they were showing better productivity than their traditional rival (Berggren 1992, 6). Volvo's "culture" and high profile were heavily conditioned by the interests and policies of its management and, in particular, those of the CEO, Gyllenhammar. The management of Volvo believed that when employees are motivated, they will give more of themselves, their ideas, and their creative energy to the endeavour of the company.

Another significant factor identified in the Volvo culture was an unusually open perspective among its engineers, which allowed a great deal of space for trying new approaches. This autonomy it gave to its workers helped the formation of new 'humanised' production systems.

Another problem in factory life was the antisocial atmosphere built into the production line which frustrated the ability of people to have social contact with their fellow employees. The elongated layout of the assembly line, which causes it to snake through a factory for kilometers, results in the physical isolation of people from each other. This issue of isolation was compounded by the noise of the traditional auto plant, people typically had to yell over the noise of machines if they did manage to get together to discuss something. Furthermore, workers are distracted by jobs of such short duration (perhaps thirty to sixty seconds) that they seldom get a chance to stop and think or talk. So all their social life has to take place outside the working environment.
In the new factory built by Volvo, the assembly-line to which the workers were once subservient, was broken up and replaced with individual carriers that moved under direct control of the workers. If the product stood still the people could work on it, concentrating on their work, rather than running after it and worrying that it would get beyond them (Gyllenhammar 1977, 13).

What Volvo had accomplished was to replace the mechanical line with the human work group. After the decentralisation and changes in the work patterns, Volvo developed some informal guidelines to help individuals make sure their own decisions were consistent with Volvo’s overall objectives. In 1977 the following subjects were covered by Volvo’s CEO, Gyllenhammar, at the time (Gyllenhammar 1977, 15-17):

1) The company’s good name. Volvo has many human and financial resources invested in its name. The name reflects an image, and that image is the vague but crucial expression of the sum of the company’s activities, ambitions, and problems. The strategic guidelines state that the name “Volvo” is one of the corporation’s most valuable assets and should be protected and enhanced.

2) International operation. Volvo factories and offices are located in more than one hundred nations, with different cultures and value systems. What value system should a company officer use in dealing with this complex world? To avoid dissension, a company should have a clear identity and be prepared to disclose it and live up to it. Thus, the guidelines declare that not only is the mother company Swedish, but the company derives its strength from its Swedish values and identity. This does not, of course, mean that the Swedish values are more precious, more useful, or more sophisticated than any other national value systems. Another important point concerns foreign investment. Because it is a strain to spread your resources thinly across the world, we encourage arrangements where our partners in host countries take a majority interest, so long as they can maintain our rigorous quality control.

3) Suppliers. Volvo’s supplier system is an integral part of the company’s growth and success. To treat our suppliers as we would like to be treated is not just a “golden rule” - it also makes good business sense. It is logical to shop around so we can buy under the best conditions, but these decisions must be founded on very long-term considerations of quality, price, technology, competitiveness, and security of deliveries.
4) **Design.** The guidelines state: “The designs of the Volvo group shall be thorough and honest”. We want to achieve a technological level second to none, while avoiding the cosmetic frill that quickly marks the difference between old-fashioned products and timeless products. Continuity is a must, but should not imply conservatism. We want our products to be based on a total concept of transportation, rather than be sub-optimised within any particular sector.

5) **Information.** A prerequisite for our favourable development is to give every employee comprehensive information about the company’s total activities, and especially about those affecting the individual’s own work. Clearer information can help achieve better accountability, as well as a more balanced distribution of power in the organisation.

6) **Bureaucracy.** We can’t afford it. Therefore, although adherence to the rules is important, deviations to increase efficiency will be tolerated. Every manager should cooperate, consult with, and try to tap whatever resources exist, but not organise these resources in committees. Finally, the spoken word will always have priority over written memos.

7) **Production.** The ultimate efficiency is achieved when each employee is willing to give his or her best to the corporation. This means we must constantly develop our production methods to give each employee more satisfaction. Every employee is entitled to a dignified workplace and the opportunity to choose variation in his or her work. The company owes each employee the resources and environment necessary to perform a task, and the opportunity for personal development. Each worker should feel that the company values his or her performance.

8) **Leadership.** Too many people confuse participation and consultation with permissiveness, slopiness, and a lack of discipline. Others worry about the effects on the organisation of increased employee involvement and influence. True leadership builds from an awareness of other people’s dignity and their wish to do their best. Good leadership is the ability to cooperate and delegate without losing time or momentum. Such leadership depends on constant and consistent educational programs as well as organisational structures that fit the corporation’s objectives.

Even though the above guidelines were written in 1977, one can still get a clear picture of the organisational culture at Volvo. Much of what Hofstede (1980) suggested about Swedish national culture is reflected in the Volvo philosophy. The low power distance of Sweden is identified at Volvo in the distribution of
information. This is used to “help achieve better accountability, as well as a more balanced distribution of power in the organisation”.

The employees at Volvo, and in the rest of Sweden, were striving for power equalisation and demanded justification for power inequalities. The value of low uncertainty avoidance is reflected in Volvo’s view of bureaucracy. Volvo’s organisational culture represents a very flexible and tolerant organisation. The femininity of the Swedish culture, and also Volvo’s organisational culture, is expressed in the type of leadership at Volvo, the flexibility given to foreign subsidiaries, the valued relationship with the suppliers and the importance of employees happiness at work. Volvo clearly expresses how important each and every employee is in terms of information concerning the company and the workplace. A key element of the organisational culture is for all employees to have a dignified, safe and stimulating workplace. These motives show the individualistic nature of the Swedish national culture. The short-termism identified by Hofstede and Bond (1988), is not reflected in the guidelines at Volvo. The importance given to a long-term relationship with suppliers and satisfied employees seems to indicate a more long-term orientation. This is not implying Hofstede’s research is wrong, but merely that in this particular company the organisational culture indicates a more long-term approach.

This section has illustrated the distinct organisational culture of Volvo. Some of Volvo’s more feminine features include the importance with which management regards its employees. This is typified by improving working conditions at the factory. Volvo also successfully increased its employees motivation and commitment but also created a working environment which aided the introduction of these
improvements. The strong commitment to the quality of the products is another indication of the feminine characteristics of the organisational culture at Volvo.

The work-stations were also a means to encourage each employee's own individualism. These work-stations clearly distinguish themselves from the traditional collectivism associated with the assembly-line. The equality of the Swedish social system that was identified in Hofstede's study is also reflected in the structure of the organisation at Volvo. Volvo's culture has evolved from a centralised organisation to a more decentralised structure at the end of the 1960s, which indicates a move in the direction to an even lower level power distance relationship.

The management style of Volvo has been reflected in the process of relieving workers of mechanical pacing, true team production (as opposed to administratively engineered teams) and a strong interest in improving the physical work environment and ergonomics through technical as well as organisational means. Yet another has been an endeavour to enforce democracy at the workplace and develop sustainable forms of shop-floor self-governance. Finally, there has been extensive labour-management collaboration, such as independent unions being important partners in company activities. All these features have become characteristics of the "Swedish management style", which generally is less authoritarian, more informal and egalitarian, and less inclined to rely on the formal powers of organisational position. A common theme amongst all these attributes is the co-determination (between employees and employers) on all matters at work. This attribute can be directly linked to the Swedish industrial relations system which Volvo simply transferred to its management and organisational culture.

In the following section, the organisational culture of Volvo Australia Pty Ltd will be discussed as an example of how the influence of national culture on the
organisational culture of Volvo has been successfully transferred to its Australian operations. Although Volvo by international standards is a medium-sized company, in its home country Sweden it is regarded as a large company.

5.3 The organisational culture of Volvo, Australia

5.3.1 Early history of the organisational culture of Volvo

Volvo has had a colourful presence in Australia stretching back to the early 1960s. The company has introduced a large number of interesting models and important innovations. Some of the innovations included seat belts, better brakes, effective headlights and upward opening boot lid to increase luggage capacity. It has also achieved a string of motor sport successes, increasing the public’s awareness of the company.

The Volvo 120, first produced in Sweden in 1956, reached Australia as private imports four years later. Thereafter, Volvo continued to import innovative models and market their product primarily on safety aspects (Davis and Davis 1990, 17). Volvo’s existence in Australia at this stage was exclusively through agents.

The Brown and Hurley group became Australia’s first independent Volvo truck dealer. The F86 and F88 designs were the first truck exports to Australia during the 1960s. The trucks had been firstly built in Sweden, then “knocked down” to a degree and shipped over in crates (Davis & Davis 1990, 28). In 1971, the assembly operation was moved to full-scale at Wacol, Queensland.

Volvo’s growing successes initiated the formation of Volvo Australia Pty Ltd (VAPL) on the 29 November 1969, signaling that Volvo was making a commitment to the Australian market. The activities of the company included the import and distribution of Volvo cars, trucks and buses, Volvo Penta marine and industrial
engines and Volvo BM loaders, road-graders. VAPL took on Swedish Motors as a partner and bought the stock of the other Volvo agents around Australia. The newly formed Volvo Australia employed 95 people and sold 782 cars, 200 trucks and 10 large items of earth-moving equipment during its first year of business (1970). Volvo also announced that it would assemble its cars locally if sales continued to increase.

From the 1970s onwards, Volvo Australia spent lavishly establishing retail outlets around Australia. At this stage Volvo had only penetrated 0.2 per cent of the car market. Volvo experienced a huge sale boost in 1971 when more than 2000 cars were sold. Two factors contributed to the success. Firstly, some clever promotion campaigns were devised, and secondly the establishment of VAPL as the importer/distributor with direct links to AB Volvo, Sweden, enhanced confidence among dealers, owners and potential buyers.

At this stage imports were strictly controlled by the Australian Government and local assembly was the only way for Volvo to quickly increase its volume. A decision was made to assemble Volvo cars in Melbourne, to help the company contain its costs (Davis & Davis 1990, 76). Apart from the quality control measures already at the factory, the assembly plant was staffed with 17 Volvo 'executive policemen'. They were responsible for ensuring that everything was done precisely the Swedish way. With typical thoroughness, VAPL also shipped cars to the home factory at regular intervals. These were stripped so that all aspects of quality control would be checked. This was a definite attempt by Volvo AB Sweden to transfer part of its work culture to Australia.

The first locally manufactured Volvo went on sale in late 1971. Meanwhile, a successful marketing campaign emphasised the twin themes of safety and luxury. In 1975 the new 240 series was introduced, and sales continued to increase to more than
7,000 cars for the year. By early 1980, when VAPL celebrated its tenth year, over 50,000 Volvo cars had been sold in Australia and annual sales were running at the rate of 6,500 cars, over 800 trucks and buses and 65 Volvo BM machines per year. Volvo had become the nation’s largest-selling imported luxury car.

In 1982 a slackening of demand set in, due partly to higher interest rates. In 1983 VAPL announced the introduction of the 760GLE sedan. Financially, 1985 was the best year for Volvo due to a booming market and growing acceptance of the bigger and dearer 700 series. There were at least two major developments during this period. The company introduced its ‘Customer Bill of Rights’ and also a 12-month unlimited kilometers warranty on used Volvos that was extended to cover cars up to seven years old and with up to 160,000 km ‘on the clock’. These developments reinforced and emphasised the fact that Volvos were of high quality and that they were prepared to prove this fact.

In 1986, economic hardship struck importers like Volvo when unleaded fuel became a compulsory requirement, prices rose and a ‘fringe benefits tax’ was introduced affecting what was already perhaps the most taxed item in the country - the car. In November, a special luxury tax of 30 per cent was introduced for all cars over $30,000, which made the luxury market dip even further. In August 1988, VAPL announced the discontinuation of local production. It had been the only European manufacturer still assembling cars here, following the demise over a 30-year period of assembly operations by competitors like Mercedes, Fiat, Austin, Morris, Triumph, Hillman, Humber, Renault, Peugeot, Volkswagen, Simca, Standard and Wolseley. The decision to quit was in no way due to quality reasons, it stemmed from the progressive increase in import duties on completely knocked known units making continued market growth and profitability impossible.
Despite having only 1 per cent of the Australian car market today, Volvo is far better known than some other firms with twice the sales and four times the marketing budget. The company’s way of doing things has had a far bigger influence on the local industry than most outsiders realise. To many Australians, Volvo is synonymous with Sweden. The Volvo culture - exemplified by innovation, practicality, durability and safety, environmental initiatives, export emphasis and solid management - has enabled the Australian organisation to stay healthy through hard times when many of its European competitors have all but disappeared (Davis & Davis 1990, 15-24).

Today, Volvo Australia’s headquarters is based in Chatswood, NSW with around 150 employees. The head office’s job is to control all marketing and other support functions of VAPL, such as accounting and finance. In addition to importing cars, the company manufacturers its own trucks and buses at Wacol. Construction equipment is marketed through a separate entity.

The board of Volvo Australia includes several Australian non-executive directors. Its responsibility is to review the company’s performance and generally guide and assist in the development of the Australian venture. The company relies heavily on what insiders call ‘the Volvo culture’. Developed in Sweden, the culture comprises rigid planning, a tight organisation, high business ethics and exceptional company loyalty afforded to its employees. Amongst its most prominent features is a pervasive esprit de corps, which ensures that Volvo will always try to fill a vacancy with someone from the Volvo organisation, especially on a management level. Two-way traffic between Volvo and its dealers has been going on for 20 years. Volvo people go to work for Volvo dealers and dealer employees move into the Volvo
organisation. As Gyllenhammar, the CEO of 20 years, always emphasised - people are Volvo's best resource.

In return for the loyalty it extends to its workforce, the company expects discipline and rigid adherence to its systems and objectives. New and existing employees are exposed to comprehensive training courses which involve skills as diverse as time management and answering the telephone in the company-approved manner. New employees also learn the history of the Volvo group since its formation and its present ranking as a multinational with 78,000 employees, 177,000 shareholders and an annual turnover equivalent to AUD 17 billion (in 1990). Its plants are located in Sweden, Belgium, The Netherlands, Great Britain, the USA, Canada, Peru, Brazil, Iran, Thailand, Malaysia and Australia.

Over the past decade there has been increased competition from Eastern countries, such as Japan and Korea, saturating the 'small cars' segment. Although, the market importance of small cars has grown, these developments have not had a pronounced effect on Volvos operations in Australia. Volvo is included in the 'luxury car segment' which is fairly static. Volvo is trying to increase its market share by introducing the new series of 850, S70, S40, V70, V40 and C70. So far the favourable reception of these have helped produce a big boost in sales during the first six months of 1997. The C70 was also used in the movie "The Saint" starring Val Kilmer. This was a huge international marketing investment.

All cars are fully imported from Sweden. The downside of shipping over the cars completely assembled (CBU) is that a fairly high import duty has to be paid of 22%, whereas the trucks, which come from Sweden completely knocked down (CKD) and assembled here in Australia, escape import duty.
As has been described, Volvo has a very distinct organisational culture worldwide. On one level we have the production processes within Volvo, where cultural values are reflected by its focus on people, safety and quality. On the other hand there is the administration side which includes such things as management, marketing, accounting and finance. It is evident that the reoccurring themes of Volvo's values are operational priorities that exist on both levels. Before illustrating the details of the management accounting sub-culture at Volvo in Australia, it is important to first identify the organisational structure at Volvo.

5.3.2 Organisational structure

Volvo Australia is involved in only part of the parent company's activities, being primarily concerned with marketing cars, trucks and buses and supporting them with replacement parts and accessories. The organisation is divided into five divisions and two departments, each of which reports directly to the CEO. Marketing is divided into different divisions: cars, trucks and buses, parts and accessories. The production division is responsible for the production and product development of trucks and buses. Corporate sectors are subdivided into finance and administration, corporate planning and public relations. The organisation of the finance department is shown in Figure 5.1.
The finance department is the site of the present case study. Five employees were interviewed in the Finance Department at Volvo Truck Australia Pty Ltd. The five people interviewed are all involved in accounting.

- Tore Backström - General Manager of the finance department.

Mr. Backström is from Finland with 25 years of employment within Volvo. His education includes a Bachelor of Accounting and Master of Business Administration. He has been Director of Finance and Administration at Volvo since 1994. He sees himself more as a businessman than an accountant. His aim is to turn the finance department into an efficient support function for the rest of the company, which is highly computerised and staffed with people with a high degree of
professionalism. He has been involved in starting up a new accounting software system, a survey of the level of satisfaction departments have with each other, a weekly employee information sheet and the introduction of a range of non-financial key-performance indicators.

- Kerrie Jackson - Assistant

Kerrie Jackson is the assistant to the general manager of the finance department. Her role at the company changes every three to five years when a new ex-patriot takes over the position as general manager. The job description itself does not change, but the way of doing things around the office varies with the new manager. Her role is to support the general manager. She is also involved with administration of employee credit-cards, fuel-cards, lodging the value-added tax to Sweden, correlate the board-reports from the Board of Directors meetings. Previously, she has worked at Volvo reconciling accounts.

- Ted Holland - Company Secretary

Mr. Holland comes from the UK originally, but has now become an Australian citizen. He did a Bachelor of Arts degree in English at University, but only started with accounting after he moved to Australia. Since University he has done a cost accounting course with the Australian Society of Accountants and has 30 years of experience within the field of accounting.

Mr. Holland has worked at Volvo since 1978 when his initial position was an assembly-controller. In 1985 he did his secretarial qualifications and is working today as the company secretary for both Volvo Car and Volvo Truck. He works with the financial reports as well as superannuation, transfer pricing, tax and treasury
function. He reports to the management accountant who in turn reports to the financial director.

- Jason Tellett - Management Accountant

Mr. Tellett is English and has been in Australia for three years, 18 months of which have been with Volvo. His qualifications include Bachelor of Arts (Honours) in Economics, majoring in business accounting and finance. He is a member of the Charted Institute of Management Accountants in England.

Jason Tellett’s position at Volvo is coordinator of the forecasting/planning process, budgeting, business analysis and collation of dealer financial results. His position is a newly created position that originally was supposed to deal with the accounting information system, but now is mainly within budgeting and forecasting, that is, with pure management accounting. His position has included setting up an accounting system for the budget. Much of his duties are now to provide information to the head office for the Asia/Pacific region in Singapore which expect to be informed regularly and in some detail. Tellett commented how “In good times no-one cares about expenses, but when car sales are disappointing you tend to find that when you are not performing as well, people want more information on why expenses have increased, why as many cars have not been sold”.

Much of the work done in Singapore today was once the responsibility of the head office in Sydney which was the administrator and marketer for cars and trucks in the Asia/Pacific region. During the last year the Singapore office has started to take over these duties and now acts as an intermediary between Australia and Sweden. One of the reasons is that Singapore is geographically closer to most of the Asia/Pacific countries, and closer to the head office in Sweden. The Singapore office
has its own reporting requirements which can differ to those of Sweden. As a consequence, Tellett has to supply information to both Sweden and Singapore. He supplies the office in Singapore with all the forecasting (growth, profitability and sales figures) concerning Australia and the more analytical figures, such as economic development in Australia and market share, which Singapore later sends to Sweden. The quarterly forecasts and the annual budget is sent to Sweden together with the strategic plans, including the three year business plan.

- George Perez de Arce - Management Accountant for Trucks

Mr. Perez de Arce comes from Chili, and has been in Australia for 12 years. He has been employed by Volvo during all his years in Australia, and has worked as a clerk, supervisor and management accountant for the truck division.

Perez de Arce’s position entails providing financial support in the truck/bus marketing/service areas, expense control, sales and gross profit analysis and warranty/ goodwill account reconciliation. He is also responsible for operating statement control for the management. He works with the marketing manager, the sales manager, the parts manager, the service manager and the bus manager. His position is not a part of the finance department directly. Rather, he supports them with advice and explanations regarding the monthly reports. His responsibilities also involve all the provisions of the company, i.e. warranties. Together with the service department, he then makes sure the planned provisions are what Volvo is expecting. If the provisions are unusually high an investigation links them back to the factory, or sometimes as far back in the production line as to Sweden, where the truck parts are manufactured. The service department does the actual follow up, but the management accountant puts his eyes on the figures and endeavours to determine what is wrong.
Every month Perez de Arce meets with the service department to review the quality of the trucks.

Perez de Arce also prepares all the forecasts for trucks and buses. When preparing the information, he sits down with the sales manager and goes through the budget and forecast, follow-up figures such as sales volumes and profit analysis from a forecast point of view. A forecast is also made for operating expenses and operating income.

The difference between the management accountant’s job in the finance department and the management accountant’s job for the truck department is that the finance department puts everything together for the company. Tellett deals with Sweden directly in order to provide the consolidated information worldwide. He also does the forecast and the budget based on information he gets from Perez de Arce, who works directly with the operations of the truck division. The management accountant for the truck department has to prepare a gross profit analysis for each model of truck and bus, and provide information on the reporting of financial forecasts and budgeting to the finance department. A similar position for the car division has just recently been approved.

The management accountant for the truck department reports directly to the General Manager, and works closely with all the managers in the different divisions in Volvo Truck, such as product, marketing, service and parts. He is responsible for the contingent liabilities, month-end figures, financial analysis, authority and signature, management and board reports, administration support and Volvo contract maintenance.
5.4 Management accounting sub-culture at Volvo, Australia

Unlike financial accounting, management accounting is not bound by rigid accounting principles and standards. Nor are there accounting principles like uniformity and conservatism to follow for management accounting. Each company chooses the management accounting system most suitable to their needs, both financially and culturally. This section will look at the management accounting system used at Volvo, Australia, including the cost accounting system used, the role of the management accountant, the location of the factory compared to administration, the management accounting information systems, performance evaluation and the budgeting procedures.

5.4.1 Cost accounting

Volvo Australia uses an absorption costing system. First, Volvo forecasts how many trucks will be sold and then how many labour hours it will take to assemble them. Thus, if there is an overhead cost of, for example, $10,000,000 it will be divided amongst the labour hours incurred. Volvo’s management accountant, Mr. Tellett, admits that this is a very traditional way of doing cost accounting and that it does not always reflect the most accurate figures. Labour currently represents less than 5% of the total cost at Volvo Truck.

All the absorption costs are managed at the plant level allowing the financial controller to be fully involved with the finance department. Once the product is finished, it is Volvo Truck’s management accountant who looks at the variances and movement of costs. Variances are the responsibility of the factory financial controller who has under- or over-provided for the costs.
Volvo in Australia has considered introducing ABC but came to the conclusion that the expected benefits were not worth the costs. The management accountant believes it is only worth introducing ABC in a company that has a large product range. Volvo has only eight or nine different models of trucks and only assembles cars in Australia. This, in the opinion of the management accountant, constitutes its product range being too small for the introduction of ABC.

Every year the management accountant together with other people involved in cost accounting go down on the factory floor to go through the costs (such as price of material and total overhead cost) and update them. This is an ongoing process which is part of the budget cycle. The factory management accountant sees this as a kind of adaptation of ABC because the elements of the cost of trucks includes activities that are not directly related to the production of the trucks. To do this on a larger scale by looking at every cost driver and all the processes, as in ABC, would require a highly sophisticated accounting system to support it. This would be an expensive exercise if the company has to purchase or develop a whole new accounting system.

The more accurate allocation base possible with ABC is replaced by consistency at Volvo in Australia. The factory management accountant states that consistency allows costs to be valid over a longer period of time. If there is no consistency in the way of calculating costs, the comparison to different time periods will be inaccurate.

Volvo uses a just-in-time inventory system and puts a lot of trust in the supplier chain. According to the management accountant: “JIT is basically getting in bed with your suppliers”. Inventory is seen as a liability. Volvo, therefore, is a bit disadvantaged in achieving JIT when 80% of supplies for trucks comes from Volvo in Sweden.
Consistent with Volvo’s commitment to quality, a philosophy of total quality management permeates truck production. The results are noted in a reduction of production lead time, improving quality indexes of the models and improvements in the working environment in the production facility and premises. Up until recently Volvo had a person responsible for quality and total quality management creditation who was located in the administration building and reported directly to the managing director. Due to company restructuring this position disappeared and the responsibility now lies with the managing director.

5.4.2 The role of the management accountant

The general manager of the finance department made it very clear that the finance department is a support function for the rest of the company. The accountants in the department are expected to provide strong analytical support to management. The general manager even went as far as to say that the skills and products required of management accountants are completely different today compared to ten years ago. Accountants at Volvo today need to be able to diversify a lot more and take on more responsibility. They need to have skills which allow them to use new tools, such as computers, to make decisions, service the profit centers with information and to have a good working knowledge of the different processes in the company. “The old expression ‘beancounter’ might be a more suitable name for the financial accountants”, says Tellett, the management accountant at Volvo.

The management accountants at Volvo have a good working relationship with other departments to enable the coordination of accounting information in the forecasts and budget. To do a forecast on sales, for example, information will be collected from the marketing department on the expected market share and how
many trucks the factory in Brisbane will assemble. Eighteen months ago, Volvo introduced a new management accounting system covering forecasts and budgeting on spreadsheets which has resulted in a lot more detail being included in the reports, such as key performance indicators. Before Volvo implemented the new accounting system, information was mainly limited to actuals.

Management accountants at Volvo are expected to have strong analytical abilities and to be able to provide solutions to problems. Such a problem could be an extreme variance in production, for example a truck having a low profit margin when a high margin was expected. Both financial and non-financial explanations will be used to explain unexpected problems. Once the management accountant has realised that there is a problem, he contacts the financial controller at the factory, and together they try to identify where their forecasting went wrong. The investigation process will involve people in production, the costing system at the factory, transportation costs and any third parties involved to determine how the market share will be affected.

A typical example of the support function of the finance department occurs when it is time to do the budget. Each department makes their own budget, with support from the finance department in such areas as technical perplexity, analytical problems and help with making simulation models. A new accounting system has been implemented by the finance department to make it easier for other departments to do their budgeting.

One of the aims that the present general manager of the finance department has is to teach the other departments as much as possible so they can do the job on their own. The ultimate purpose of the finance department will be to look after the central reporting to the head-office.
5.4.3 Factory versus administrative location

As discussed in Chapter 4, management accounting is performed on the factory floor in Japan. As a distinct function in Japanese factories, management accounting does not exist. Instead management accounting tasks have been delegated to the people on the factory floor. In this scenario it is interesting to notice how completely converse it can be in a Western company. At Volvo, Australia, the factory is not even close to the administration building where the finance department is located. The factory for trucks is located in Brisbane and the finance department for trucks is at the head office in Sydney. There is, however, a team of three to four accountants at the factory in Brisbane. The general manager of the finance department believes the finance department and the factory serve two completely different purposes. The factory is part of the manufacturing function and the finance department is part of the sales function. As a consequence, it should not really matter where the factory is located.

One of the reasons Volvo located the factory in Brisbane was the presence of other truck manufacturers in the same area, such as International and Kenworth. One of the advantages of having a truck assembled in Australia is the ability to meet customised orders with a wide variety of options to choose between. If the trucks came completely built up (CBU) it would take three months to deliver, and not many customers know exactly the options and accessories they want on their truck three months in advance. An example of an option is what type of gearbox. With cars there are only a limited number of accessories that change.

Volvo has been trying to decide whether to move the factory to Sydney, leave it in Brisbane or close it down and get the trucks CBU from overseas. The trend,
however, is to get the trucks CBU, which would mean closing down the factory and, contrary to Volvo's strategic plan, a loss of market share. By manufacturing the trucks in Australia, the market has responded positively towards Volvo.

5.4.4 Accounting information systems

Computerisation is an area of increasing importance for everybody, especially for management accountants. Many book-keeping duties, since the first computer, have become automated and as a result many accountants have had to change positions within the company or re-educate themselves. It has been argued that the only accountants that will survive are those who know how to use the right tools. Volvo is currently using an accounting information system called JD Edwards (JDE), which was implemented in 1994. JDE is intended to be used until the end of 1998 when a new accounting software program called SAP will be introduced. SAP is an accounting software program that will be used by Volvo worldwide, to unify Volvo's accounting system within the 300 companies in the Volvo Group.

The management accountant for Volvo has been involved in improving the forecasting processing and budgeting part of the accounting system. The management accountant for Trucks, on the other hand, believes he could play an even more active role than he already does in information systems. When the new production system was implemented in Brisbane, a few problems occurred with the invoicing and the ordering system for parts from Sweden. In one case, the management accountant for Trucks missed out on information that he was supposed to have access to. There is a strong possibility that if the management accountant had been involved in the implementation of the new production system these accounting problems may have been avoided. The director of the finance department believes the department needs
people with a modern education who know about computers. The role of the management accountant in Volvo has definitely changed over the last 10 years.

5.4.5 Performance evaluation

Companies today are starting to realise that in order to be successful it is important to give non-financial indicators profound attention. Areas such as customer satisfaction, internal business perspectives, innovation and employee motivation are becoming increasingly important.

Most of the key performance indicators (KPI) used at Volvo are financial. The format used today is to have four or five KPI's for each area of the company, Volvo Car Australia, Volvo Truck Australia, Truck Assembly (the factory), Truck Marketing, Truck Service, Bus Marketing, Truck and Bus Parts, Retail Operations and Service (see Appendix 8 for Volvo Australia’s KPIs). The KPI’s are based on a moving 12 month average. Apart from profit, Volvo uses a range of other KPI’s such as domestic market share, operating expenses in percentage of sales, truck pipeline (how long the trucks are in transit), the number of trucks that are ‘work in progress’ in the factory, number of trucks that are finished and are waiting to be sold, inventories and domestic receivables.

When it comes to non-financial indicators, Volvo is just starting to realise the importance of them. The management accountant has identified a few non-financial indicators within marketing. One of them is ‘how many warranty claims that are late’. As a result of the difficulty of collecting the information, it has not been fully implemented yet. A common problem faced is what order date to use when calculating late delivery when a customer repeatedly changes an order. For example,
a truck is to be delivered in 6 months. After 3 months the customer comes back and changes the order, and then after another month the order is changed again.

Another non-financial indicator is ‘average time for processing warranty claims’. It measures how long it takes for a truck customer’s claim to go through the system in the truck service department. The use of quality journals to inform Volvo in Sweden of faulty parts is another quality initiative. The factory finds a faulty part and reports back to Sweden to rectify the problem. Additional non-financial KPIs are the ‘CARE Survey’, ‘Quality index’ and an ‘environment analysis’, all part of Volvo’s continuous improvement scheme. Further non-financial indicators which are currently under development are ‘training days per mechanic’ and on-time delivery.

Brand image is a non-financial indicator that is considered very important at Volvo. In the corporate business plan, in which objectives are set for the next 10 years, Volvo’s vision is to create value and maintain their brand image. It hopes to attract customers that are willing to pay a little bit more for a truck with good quality and value.

Volvo Truck has also conducted customer satisfaction surveys using a Best Business Partners Survey (BBPS) which includes indexes for the number of trucks that broke down on the road. Customer satisfaction has been measured for the last 12 years at Volvo, but only recently has it been considered as important for the company’s continuing success. The general manager of the finance department believes this is a direct result of more demanding customers, more demanding employees and increased competition.

The finance department has also been involved in a customer satisfaction survey. Since the finance department is considered a support function for the rest of the administration department, a questionnaire was sent out to other departments
asking about the service given in areas such as getting reports on time, response from the information desk etc. This is considered a first step to integrate financial and non-financial indicators at Volvo, Australia.

Employee motivation has also been given some attention by the finance department. The present general manager of the finance department introduced an employee information sheet (see Appendix 9) which shows the performance of the company every month. The information sheet covers financial indicators such as total sale, market share, operating expenses and income before tax compared to budget. For Volvo Truck, variances are also shown such as warranty costs, costs of restructuring, expenses due to restructuring and interest costs. The reaction from the employees has been very positive. In addition to the employee information sheet, both Volvo Car and Volvo Truck have separate regular meetings where the general manager informs the employees on how the companies are going. There is also time for the employees to ask any questions they might have about the company. An innovation which is used by Volvo's car company in Sweden, but is yet to make an appearance in Australia, is the balanced scorecard.

5.4.6 Budgeting procedures

Many companies are managed almost exclusively on financial information. At Volvo, non-financial indicators such as quality problems are mentioned in the budget. According to the management accountant it is all about matching priorities with expenses when you do the budget. Each department makes their own budget. The central budget looks at how many cars Volvo should sell, then the distribution departments formulate a distribution budget, the sales department makes a sales
budget, and so on. Lastly, every department's budget is collated by the management accountant.

When the budget is being decided, the management accountant works on assumptions of total market, market share and how many trucks Volvo is going to build. The basic assumptions, however, come from the general manager and from the Swedish headquarters. Once a year Volvo has its budget meetings with the managing director, the general manager of the finance department, the management accountant at the finance department, and the management accountants at Volvo Truck and Volvo Car. Except for the annual budget, there is also a long-range plan which is valid for the following 3-4 years.

5.5 Societal values and the management accounting sub-culture

5.5.1 Planning (future oriented versus tradition oriented)

Hofstede's societal value scores of Sweden indicated an orientation towards a short-term perspective. Volvo Australia's management accountant also referred to the relative short term orientation of the company's plans, often only three to four years ahead. Indeed, when interviewing the employees of Volvo Australia, the researcher was struck by their short term vision. The company secretary believes the long-range plan should be 10 or even 20 years instead of three years. This concern for the longer term is consistent with the company's strategic vision which manifests itself in improved production methods, a concern for both financial and non-financial performance indicators (such as customers satisfaction and employees) and the emphasis placed on protecting and promoting the name of the company as the embodiment of its reputation for quality and safety. Traditionally Volvo has had the people and the quality of the cars as a cornerstone of the company.
5.5.2 Controlling (quality versus quantity oriented)

Profit is one of the fundamental attitudes in Western organisations. At Volvo they have realised that one of the things that might allow them to survive the harshness of today's business environment is to persevere with quality and satisfied customers. Quality has been seen as a foundation for the company which will attract a special kind of clientele that has Volvo as their only alternative when buying a new car or truck.

Due to the increasing competition and more demanding customers and employees, Volvo has been forced to give greater focus to non-financial indicators. As was recommended in section 4.2.3, companies should identify their core values and then bed them into the organisational culture. This has been identified as being a huge problem for Western companies in the past. Management accounting theories such as TQM, JIT and employee empowerment has directed Volvo in, yet another, quality direction which indicates that Volvo is learning how to use physical information in their planning and controlling. In the organisational culture of Volvo quality has always had precedence over quantity. The attention Volvo gives to customer service, quality journals at the factory, warranty claims are indications of a history of strong quality culture. None of the paradoxes of customer service levels, budgeting and planning exclusively on numbers, and short-term/long-term tradeoffs can be solved using only financial tools. Volvo's long term emphasis on qualitative aspects of their operations is consistent with Sweden's low score on Hofstede's dimension of masculinity.

The informal leadership style at Volvo can also be seen as a feature of a culture which can be characterised as being more feminine than masculine. The open
relationship between the general manager of the finance department and his employees is yet another indication. All these signs, and the appointment of mainly Swedes to senior management positions, support the conclusion that leadership style at Volvo Australia is characteristically Swedish.

5.5.3 Measurement (monetary values versus harmony)

The societal value of masculinity versus femininity is also relevant to performance measurement practices at Volvo. Practices which can be closely aligned with feminine characteristics, as described by Hofstede, include seeing people as important assets, preserving the environment, a concern for quality and safety. When looking at the scores for masculinity found by Hofstede, Sweden received the lowest score out of all the countries surveyed. Australia, on the other hand, received a score closer to masculinity. Certainly the masculine characteristics of achieving material success and high performance were detected at Volvo, but they were not allowed to completely overshadow the organisational culture and be achieved at the expense of quality, safety or the well being of its employees.

According to Eastern culture it is more important to have an overhead allocation system that motivates employees to work in harmony with the company’s long-term goals than to pinpoint production costs. As a consequence, Eastern companies often have lower profits as a result of different objectives. Motivating employees has been given a high priority at Volvo typified with the employee information sheet, half-yearly meetings with the CEO and regular coffee-breaks twice a day. Nevertheless, profit is still the main variable in Volvo’s strategy, on a long-term as well as short-term basis.
5.5.4 The role of the management accountant (influencing values versus informative values)

As mentioned in Chapter 4, in Western societies, the management accountant has traditionally had an informative role. It must, nevertheless, be added that this role seems to be changing in many Western organisations. Management accountants are expected to be more analytical, know how to use the computer as a tool, get involved in non-financial issues and, in general, have a more influencing rather than an informative role. Management accounting is no longer the simple provision of information for decision-making, but a total resource package for managers who must guide the organisation to perform according to plan. At Volvo in Australia the whole finance department has changed drastically during the last 10 years from being an information department for the management to a support function for the whole company. The management accountants are expected to provide the figures for forecasts and budgets, but also to analyse them and provide solutions to any variances occurring.

In section 4.6 the difference between an influencing versus an informative role for management accountants was disputed. Western management accounting is informing in its role and sees reality as given and fixed. In the past, Volvo has encouraged management accounting departments to embrace the informative role, like a typical Western company. Today, the finance department at Volvo Australia is showing signs of being more influencing and becoming broader in the information it provides to management. An example of this is that the finance department tries to involve other departments in how they could perform better by soliciting information with a questionnaire. The employee information sheet, the broad range of analysis,
the involvement in decision-making of Mr. Backström and the use of non-financial information are all examples of a move to a more influencing role for management accounting and its place in participative management.

When purchasing a new information system there are certain risks involved. As mentioned in Chapter 4, these are technological, operational, economic and political. By including the management accountant at Volvo in the decision-making process when buying a new information system, the risk factors involved can be reduced and management accountants can act as both information caretakers and information caregivers. Mr. Tellett’s involvement in the new management accounting system covering forecasts and budgets on spreadsheet shows such involvement.

5.6 Conclusion

This chapter has provided evidence of some of the influences which national culture can have on organisational culture and on management accounting. As mentioned in Chapter 3, this can also be referred to as Organisational Management Accounting (OMA) which reflects an alternative paradigm and looks at an organisation with all its complexities, including issues such as internal and external environment and the design of a management accounting system. It is an emerging field which researchers are just beginning to define, much less understand. What this chapter has shown is that links can be discerned between cultural values and management accounting. Gray’s theoretical work on culture and financial accounting has been adapted to apply to management accounting by replacing his accounting values consisting of professionalism, uniformity, conservatism and secrecy, with values related to management accounting.
The result of this one-company exploratory case study has shown an apparent link between the management accounting system and the culture of the finance department. By studying planning, controlling, and measurement as representatives of the management accounting roles within the company, it was found that they are affected by mostly cultural values. By comparing Volvo in Sweden and Volvo in Australia, a conclusion can be drawn that the organisational culture of Volvo in Sweden has been fully transferred to Volvo Australia: the quality culture, the importance of having satisfied customers and good supplier relationships, employees entitlement to a dignified workplace and the accounting system. The management accounting system of Volvo Australia is based on the management accounting system in Sweden which has given an increasing importance to non-financial key performance indicators.

It is clear that there has been a transfer of managerial innovation, decision-making processes and management accounting systems. In section 2.4.1, it was reported that Hofstede claimed that for a multinational corporation to be successful in a different country, the management should adjust the personality of the company to fit the local culture, and that each company has to find its own mid-way between adapting and remaining itself. In the case of Volvo Australia there were no traces of the company attempting to adapt to the Australian national culture. Whether this is a reason for being successful or an explanation for not becoming more successful was not revealed by the case study. To some extent, it would seem that the severity of competition today has forced organisation all over the world to compromise their traditional values.
CHAPTER 6
CONCLUSION

This thesis has provided a preliminary investigation into the relationship between management accounting and culture. By identifying the management accounting roles of planning, controlling, measurement and decision-making, a link was proposed between Hofstede’s societal values and management accounting systems. A framework was developed and used for the case-study at Volvo Australia.

At the time of writing this thesis, the concept of culture has been widely discussed for decades. Two of the most popular cultural concepts used, when discussing accounting, have been national culture and organisational culture. It has been stated that financial accounting is more affected by national culture and management accounting more affected by organisational culture. This thesis has drawn attention to a link between national culture and management accounting. It was only recently that a framework for the relationship between financial accounting and culture had been developed by Gray, using Hofstede’s societal values of culture. Hofstede has four levels of manifestations of culture and five dimensions of culture. Although the dimensions were used by Hofstede to explain national culture, they proved useful to explain organisational culture as well. A framework had already been developed for the relationship between national culture and financial accounting by Gray, and this framework was adapted in the development of a similar model for management accounting and culture in this thesis.

That management accounting could be linked to culture is a relatively new conclusion prompted by the sudden economic boom in some Asian countries. One of the explanations for this boom was that they had different management accounting
techniques and systems, compared to Western organisations. As markets become
global and multinational companies operate in a diverse number of cultures, a
thorough understanding of other cultures is essential for sustained and future
prosperity.

Management accounting is influenced by national culture through
organisational culture. This was typified by the results of the case study. The
organisational culture in the Volvo company, nonetheless, has been shown to be
consistent with key enduring features of Swedish national culture. The unique aspects
of Swedish organisational culture have successfully been replicated in the Australian
subsidiary of Volvo, and consequently have affected the role of management
accounting.

The transfer of organisational culture within the same company in two
different countries would seem to be a lot smoother than transferring an
organisational culture to an unrelated company in a different country. The latter
could, for example, be when a Western company attempts to adopt Japanese
management accounting techniques. In the case study performed it was shown that
the organisational culture, including the accounting system, of Volvo has been almost
in full transferred to Volvo in Australia. This corresponds with the findings of Peters
and Waterman (1982) but is still a scarcely entertained viewpoint in the accounting
literature.

Companies might be able to learn from the cultural framework used in this
study to predict how the organisational culture of their company would perform and
react when transferred to different countries or when affected by other national
cultures through competition. The study could also increase the understanding
between different management accounting practices when companies from different
national cultures do business. This kind of research could also be beneficial to companies seeking to improve their management accounting system.
### Definitions of Self and Others

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<thead>
<tr>
<th>Category</th>
<th>Authors</th>
<th>Description</th>
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<tbody>
<tr>
<td>Human Nature Is Good vs. Human Nature is Bad</td>
<td>Kluckhohn and Strodtbeck (1961), Triandis (1982)</td>
<td>Focuses on the innate character of human nature. Determines the degree to which a culture is an ecosystem of trust or distrust. In cultures where the view of human nature as generally good dominates, trust is high. In cultures where the view of human nature as generally bad dominates, distrust is high.</td>
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<tr>
<td>Doing/Being/Being-in-Becoming</td>
<td>Kluckhohn and Strodtbeck (1961), Triandis (1982)</td>
<td>Focuses on the degree to which a society values doing (action) over being (having a deep experience of life) or being-in-becoming (evolving as a person to “higher” levels of understanding). Cultures that value doing emphasize quantity in production, supervisors would impose structure on this process; cultures that value being emphasize interpersonal sensitivity, therefore, supervisors tend to be more considerate; and, cultures that value being-in-becoming emphasize training and personal improvement.</td>
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<tr>
<td>Perceived Activity vs. Perceived Passivity</td>
<td>Triandis (1982)</td>
<td>Focuses on the extent to which individuals in a culture see themselves as doers (active shapers of the world) or doers (active reactors to the world).</td>
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<tr>
<td>Ascription vs. Achievement</td>
<td>Parsons and Shils (1951), Triandis (1972, 1982)</td>
<td>Contrasts cultures in which personal attributes (who the person is) are all-important with cultures in which performance (what the person does) is preferred. In ascriptive societies, individuals are judged by attributes they possess, such as group membership or possessions, whereas in achievement oriented societies, individuals are judged by their actions and performance.</td>
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<tr>
<td>Prestige vs. Humility</td>
<td>Sarnoff (1966)</td>
<td>Focuses on the degree to which members of a society feel it is worthy to obtain the respect and admiration of others.</td>
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<tr>
<td>Material vs. Nonmaterial</td>
<td>Sarnoff (1966)</td>
<td>Describes the degree to which members of a society consider the acquisition of goods, services, and legal tender that represent the material resources of the society to be socially desirable.</td>
</tr>
<tr>
<td>External Vs. Internal Control</td>
<td>Rotter (1966)</td>
<td>Contrasts cultures where individuals feel that most events are caused by influences external to the individual with cultures where individuals perceive most events are caused by the individual himself or herself.</td>
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</table>
Pragmatic vs. Idealistic


Focuses on the degree to which a society favour an orientation where the ends justify the means as opposed to an idealistic or moralistic orientation.

Affective vs. Affective Neutral

- Parsons and Shils (1951)

Refers to the extent it is acceptable for individuals to experience immediate gratification. In an affective culture individuals are permitted to indulge in immediate gratification, whereas in an affectively neutral culture, gratification is delayed, if it occurs at all.

**Motivational Orientation**

**Need for Achievement**


Describes the degree to which a society emphasizes the importance of individual achievement or underemphasizes - or even disparages - it. Need for achievement is defined as a dominant motive to excel, to work hard, to take calculated risks, to plan ahead, to set goals and to rely on periodic feedback. McClelland argues that the achievement motive directly affect the economic structure of a society and that a society can be transformed through reorientations in achievement motives of individuals.

**Need for Power**


Refers to the degree to which a society values individuals’ efforts to acquire power or to the extent that societal institutions reinforce individuals’ need for power. Need for power is defined as a dominant motive to exert control over other individuals and objects.

**Need for Affiliation**


Focuses on individuals’ desires to establish relationships with others and needs for social interaction. Need for affiliation is defined as a dominant motive to seek the companionship of others when the individual is anxious and confused about motives or doubtful about self-esteem.

**Intrinsic vs. Extrinsic Orientation**


Focuses on the degree to which the intrinsic aspects of the job (e.g., task itself) serve as motivating factors as opposed to the extrinsic aspects of the job (e.g., co-workers, rewards, environment).

**Cooperative/Competitive/Individualistic Orientation**

- Pruitt (1981)

Focuses on the degree to which individuals seek to achieve their own gain in conjunction with, regardless of, or over the gain of others. In societies that have a cooperative orientation, individuals focus on maximizing joint gain or the group outcome when working or in conflict with others. In societies that have an individualistic orientation, individuals focus on maximizing their own gain without concern for the gain or loss of others. In societies that have a competitive orientation, individuals focus on...
maximizing their own gain and minimizing or hurting the gains of others. In societies that have a competitive orientation, individuals focus on maximizing their own gain and minimizing or hurting the gains of others.

<table>
<thead>
<tr>
<th>Self-Orientation vs. Collectivity-Orientation</th>
<th>Parsons and Shils (1951)</th>
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<tbody>
<tr>
<td>Refers to the relation of an individual’s pursuit of self versus collective interests. In a self-oriented society individuals pursue their own interests and “do their own thing”. In a collectively oriented society, individuals view their own actions in terms of their impact on others in the collective of group.</td>
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<td>Focuses on the extent to which members of a society seek to enhance their own personal interests (even at the expense of others) as opposed to the extent to which they seek to transcend selfish concerns and promote the welfare of others and the community.</td>
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<tr>
<th>Masculinity vs. Femininity</th>
<th>Hofstede (1968)</th>
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<tr>
<td>Describes the degree to which a society minimizes or maximizes the division and differences between sex roles. In masculine societies, there is a preference for achievement, heroism, assertiveness, and material success; in feminine societies, there is a preference for relationships, modesty, caring for the weak, and quality of life.</td>
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<tr>
<th>Avoidance of Failure vs. Acceptance of Failure</th>
<th>Heckhausen (1968)</th>
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<tr>
<td>Describes the degree to which individuals in a society emphasize the importance of avoiding failure. Fear of failure is defined as a dominant motive to avoid demanding, achievement-oriented tasks because performance on these tasks is difficult and the probability of failure is high. Individuals in societies that emphasize avoidance of failure are attracted to nonpersonal sources of responsibility, such as one’s superiors, bureaucratic rules, or the politics of the situation; they may also withdraw cognitively (e.g., blunt, deny, repress) from decision making.</td>
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<th>Relations between Social Members</th>
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<td>Specificity vs. Diffuseness</td>
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<tr>
<td>Refers to the degree to which relations among actors and objects are limited. In a diffuse culture the relation of the actor to the social object can be quite indirect. In a specific culture, in contrast, this relation is quite narrow and limited.</td>
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<tr>
<th>Familism</th>
<th>Banfield (1958)</th>
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<td>Contrast cultures that are characterized by a strong family identification and little concern for others outside the family with cultures characterized by de-emphasis of the extended family. In cultures that score high on familism, the individual’s primary loyalty is to the family, which may include ritual as well as direct relatives. In cultures that score</td>
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<td>Topic</td>
<td>References</td>
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<tr>
<td>Individualism/Collaterality/Lineality</td>
<td>Kluckhohn and Strodtbeck (1961)</td>
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<td>Particularism vs. Universalism</td>
<td>Parsons and Shils (1851)</td>
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<tr>
<td>Social Restraint vs. Self-Control</td>
<td>Morris (1856)</td>
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<tr>
<td>Tight vs. Loose Society</td>
<td>Witkin and Berry (1975)</td>
</tr>
<tr>
<td>Interpersonal Trust vs. Interpersonal Wariness</td>
<td>Whyte (1963), Williams, Whyte and Green (1966), Almond and Verba (1963)</td>
</tr>
<tr>
<td>Democratic vs. Autocratic Leadership</td>
<td>MacIver (1947), Bass (1960, 1981), Meade and Wittaker (1967), Lippitt</td>
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Low on familism, the spouse-spouse relationship is all-powerful, children leave home early, and outside institutions (such as schools) are charged with important socialization functions.

Focuses on the modality of an individual's relationship to others. Indicates how individuals in a society interact with each other and perceive their relationships to each other. Individualism refers to the autonomy over action afforded to the individual. In individualistic cultures, individual goals have primacy over the goals of specific collateral or lineal groups. A strong collateral orientation refers to the primacy of the goals and welfare of the extended group over those of the individual. A lineal orientation refers to a prioritization of group goals over time. Continuity of the group and an ordered positional succession are central to lineality.

Focuses on the relation between the individual and other members of the society, describing the degree to which individuals are integrated into groups in a society. Individualistic societies are characterized by loose ties between individuals whereas collectivist societies are characterized by strong ties among individuals. In collectivist societies, people tend to be integrated into strong, cohesive in-groups from birth onward.

Refers to the role of general rules in guiding individual action. In societies which have a particularistic orientation, individuals are guided by the unique aspects of the situation and its relevance to specific aspects of the actor. Individuals in societies which have a universalistic orientation, in contrast, are guided by a broad set of rules and policies. In universalistic societies, conformity to these standards is expected.

Focuses on the degree to which individual behaviour is socially (by groups) or internally (by self) constrained.

Tight cultures are characterized by strict socialization processes. Members of tight cultures tend to be more sensitive to interpersonal relationships. Loose cultures are characterized by less strict socialization process. They emphasize self-reliance and independence.

Focuses on the degree to which interpersonal trust is characteristic of members of a society.

Refers to the distribution of power between leaders and followers characteristic in a society. In societies that have a preference for
democratic leadership, leaders seek to achieve majority decisions; the relations between leaders and followers in these societies are characterized by trust and reciprocity. In societies that have a preference for autocratic leadership, power resides in the leader and relations between leaders and followers are based on sanctions and require enforcement mechanisms.

**Participative vs. Directive Leadership**


Describes the decision-making process characteristic of groups in a society. In societies that favor participatory leadership, the leader consults with group members either individually or in groups before making final decisions. In societies that favor directive leadership, leaders make decisions without consulting subordinates.

**Power Distance**


Focuses on the degree to which members of a society accept and expect that power in situations and organizations is distributed unequally. Cultures that score high on power distance will be characterized by greater acceptance of inequalities, more autocratic leadership, and greater centralization of authority. Cultures that score low on power distance will try to minimize inequalities, favor less autocratic leadership and less centralization of authority.

**White-Collar vs. Pan-Worker Orientation**

Whyte (1963), Barrett and Bass (1976)

Contrasts societies in which large social status distinctions exist between white- and blue-collar workers with those in which these status differences are less acute.

**Work vs. Nonwork Centrality**

England and MOW International Research Team (1985), Auclair (1968)

Describes the level of importance that working has in the life of individual members of a society.

**Work vs. Personal Life**

Auclair (1968)

Focuses on the degree to which role demands of personal and family life conflict with the role demands of work in society.

**Patterns of Communication**

**Abstractive vs. Associative**

Glenn and Glenn (1981)

Focuses on the cognitive character of communication typical of different cultures. In abstractive cultures, the basis for association among events is primarily cause-effect relationships or similarity of features. In associative cultures, the basis for association among events may be proximity, frequency, or trial interdependence.

**Holistic vs. Linear Orientation**


Focuses on the character of cognitive processing characteristic of a culture. Holistic cultures consider issues in context and in combination. All aspects of a decision are discussed before reaching any agreements. Issues are considered separately and sequentially in linear cultures which use
<table>
<thead>
<tr>
<th>Type of Contrast</th>
<th>Reference(s)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field Dependent vs. Field Independent</td>
<td>Gruenfield and MacEachron (1975), Glenn and Glenn (1981)</td>
<td>Focuses on the style of communication characteristic of a society. In field dependent cultures, face-to-face communication is favored and individuals share a large body of information based on historical and contextual models. Individuals in field dependent cultures tend to view the world in a less differentiated, more global fashion. In field independent cultures, individuals are more likely to utilize context-free information.</td>
</tr>
<tr>
<td>High Context vs. Low Context</td>
<td>Hall (1976)</td>
<td>Focuses on the style of communication and cognitive processes characteristic of a society. In high context cultures, people interact extensively, information is widely shared, and messages which appear to be simple on the surface carry great symbolic or embedded meaning. Low context cultures, in contrast, are highly individualized and may be fragmented. In these cultures, communications are direct with little hidden meaning.</td>
</tr>
<tr>
<td>Ideologism vs. Pragmatism</td>
<td>Triandis (1982)</td>
<td>Focuses on the extent to which information extracted from the environment is transmitted to other members of the society within a broad framework (e.g., religion or political ideology) or within a relatively narrow framework. This dimension refers to a way of thinking. Ideologists employ a broad ideology within which all events are supposed to have meaning. Pragmatists consider the infinite diversity of entities in the world and then derive principles inductively.</td>
</tr>
<tr>
<td>Universalism vs. Particularism</td>
<td>Glenn and Glenn (1981)</td>
<td>Focuses on the extent to which information extracted from the environment is transmitted to other members of the society within a broad framework (e.g., religion or political ideology) or within a relatively narrow framework. Glenn and Glenn, however, differentiate pragmatism into two forms - preindustrial and postindustrial. Preindustrial pragmatic societies (e.g., Arab countries) deal with each individual differently. Postindustrial pragmatism is characteristic of very complex societies (e.g., northern European and North American societies). These societies do not consider any broad unifying principles to be at work in the environment.</td>
</tr>
<tr>
<td>Contact vs. No-Contact</td>
<td>Hall (1959, 1966)</td>
<td>Focuses on the degree to which contact among members of a culture is close or distant. Contact is defined as physical distance, eye contact, body contact, and tone of voice.</td>
</tr>
<tr>
<td>Concept</td>
<td>Source</td>
<td>Description</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Dionysian vs. Appollonian</td>
<td>Glenn and Glenn (1981)</td>
<td>Contrasts cultures that favor free contact with those that limit interpersonal contact. Dionysian cultures are characterized by close interpersonal relations and free contact. Appollonian cultures emphasize interpersonal distance, protocol, and little expression of emotion.</td>
</tr>
<tr>
<td>Public Space vs. Private Space</td>
<td>Kluckhohn and Strodtbeck (1961)</td>
<td>Focuses on the preference that society has for public as opposed to private space. What types of offices do important employees have? Where are meetings usually held - in public or behind closed doors?</td>
</tr>
<tr>
<td>Orientation toward Time, Change, and Uncertainty or Risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Confucian Dynamism</td>
<td>Hofstede and Bond (1988)</td>
<td>Deals with a society's search for virtue and relates to the teaching of Confucius. Replaces Hofstede's uncertainty avoidance dimension. Societies that score high on the dimension have dynamic, future-oriented mentality whereas societies that score low on the dimension exhibit a more static, tradition-oriented mentality. A high score on the dimension indicates that the culture tends to emphasize the Confucian teachings which encourage perseverance and thrift. Societies that score low on the dimension emphasize the Confucian teachings which encourage respect for tradition, personal steadiness and stability, thus discouraging risk seeking or initiative.</td>
</tr>
<tr>
<td>Mastery/Harmony/Subjugation to Nature</td>
<td>Kluckhohn and Strodtbeck (1961)</td>
<td>Focuses on the relationship between man and nature, in particular the degree to which members of a society perceive that man can control his environment. A mastery-of-nature orientation is characterized by a preference for solutions that control nature or change the environment. A harmony with nature orientation emphasizes the view that coexistence with nature is important. And, a subjugation to nature orientation favors more passive reactions to the environment.</td>
</tr>
<tr>
<td>Past/Present/Future Orientation</td>
<td>Kluckhohn and Strodtbeck (1961)</td>
<td>Deals with the temporal focus of human life. Focuses on how a particular culture perceives time and which temporal mode the society emphasizes. In societies where a past orientation dominates, preservation is favored. In societies where a present orientation dominates, spontaneity is valued. And, in societies where a future orientation dominates, planning is stressed.</td>
</tr>
<tr>
<td>Traditional vs. Modern</td>
<td>Terpestra (1878), Ronen (1981, 1984)</td>
<td>Describes a society’s attitude toward time. Societies characterized by a traditional orientation measure time by the long view. They perceive that time governs life through regular, unhurried natural events. In these societies (often preindustrial or agricultural), time is perceived as a cycle. Societies</td>
</tr>
<tr>
<td>Patterns of Institutions and Social Systems</td>
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<tr>
<td>--------------------------------------------</td>
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</tr>
<tr>
<td>Cosmopolitan vs. Local Orientation</td>
<td>Merton (1968), Rodgers and Shoemaker (1971), Kedia and Bhagat (1988)</td>
<td></td>
</tr>
<tr>
<td>Openness to Change vs. Conservation</td>
<td>Schwartz (1992)</td>
<td></td>
</tr>
<tr>
<td>Uncertainty Avoidance</td>
<td>Hofstede (1980)</td>
<td></td>
</tr>
<tr>
<td>Monochronic vs. Polychronic</td>
<td>Hall (1976)</td>
<td></td>
</tr>
</tbody>
</table>

**Monochronic vs. Polychronic**

- Characterized by a modern orientation have a linear sense of time that originates in a mechanical perception of the world as mathematically divided into hours, minutes, and seconds. These cultures emphasize precision and the future.

- Refers to a culture's orientation toward time. Monochronic cultures view time as linear. Members of monochronic societies respect schedules and tend to do one thing at a time. Polychronic cultures view time as cyclical. Members of polychronic societies do whatever is most appropriate for the moment and often have many activities going on at the same time.

**Traditionalism vs. Modernity**

- Focuses on the degree to which a society is tolerant as opposed to intolerant of change and ambiguity.

**Uncertainty Avoidance**

- Focuses on how a society copes with change and the uncertainty that change engenders. Cultures that score low on uncertainty avoidance accept uncertainty, do not find it upsetting and therefore take risks easily. Cultures that score high on uncertainty avoidance, try to beat the future by avoiding risk and creating institutions designed to promote security. Cultures high on uncertainty avoidance therefore are characterized by higher levels of stress and anxiety because individuals in these societies are uncomfortable in unstructured situations.

**Openness to Change vs. Conservation**

- Refers to the degree to which individuals in a culture are motivated to accept change or to preserve the status quo. In cultures that are open to change, individuals tend to follow their own intellectual and emotional interests in unpredictable and uncertain directions. In conservation cultures, individuals tend to preserve the status quo, valuing the certainty it provides in relationships with close others, institutions, and traditions.

**Absorptive Capacity**

- Describes the degree to which a society or organization is open to change and innovation as opposed to resisting change or innovation.

**Socioeconomic Modernity**

- Identifies the degree to which a society or organization focuses on broad or parochial concerns when confronting change, innovation, or conflict.

- Describes the degree to which various aspects of modernization (wealth, education, technology, etc.) are characteristic of a society. Cultures which score high on the socioeconomic modernity dimension tend to
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Market vs. Controlled/Planned</td>
<td>Same as above</td>
</tr>
<tr>
<td>Hierarchy/Market/ Sectarian</td>
<td>Douglas and Wildavsky (1982)</td>
</tr>
</tbody>
</table>

have a higher GNP, a citizenry that is more formally educated, and greater levels of technological development.

Describes the degree to which economic structures or activities in a society are open to environmental forces or controlled by governmental and political institutions.

Refers to the type of political and social relations typical of a system of institutions. Hierarchy systems are premised on the belief that social equality is not necessary, good, or even possible. Rather, inequality is accepted and codified in political institutions such as the constitution. Members of hierarchy systems value stability, dignity, and the well-being of the whole social organism of which they are a part. Institutions in these systems deal with envy by insulating members, separating their lifestyles, and setting ceilings on their aspirations. Contrary to the market system that loses moral plausibility if the pattern of wealth holding is stabilized, hierarchy systems seek to stabilize control of wealth. Hierarchy systems rely on explicit controls.

Market systems are committed to social equality as well as to the equality of its citizens before the law. In a market society, any citizen has the right to enter the systems of exchanges that constitute the main institutions and to benefit from the immunities and protections devised to make the exchanges work. Members of market societies, however, accept the temporary social inequalities that result from the process of market operation because members value rewards for success in fair competitions. The fundamental justification for social relations is not faith in the value of the individual, but faith in the freedom of exchange. Institutions deal with envy by ensuring that the rules of exchange are fair and then assuming that the social rankings which emerge are not permanent. Controls in market systems are indirect.

Sectarian systems are intolerant of inequality in any form and equal distribution is implied in the conditions of rational, voluntary association. Members of sectarian societies tend to express faith in human goodness. Sectarian systems value the individual most highly and derive all other guiding principles from this key orientation. In these systems, envy serves as the active principle of control and stimulates the effort of mutual criticism which keeps society free of artificial distinctions. Controls are repudiated in sectarian systems; instead, these systems rely on member’s “goodness of heart”.

<table>
<thead>
<tr>
<th>Comparison</th>
<th>Author</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materialist vs. Post-Materialist</td>
<td>Inglehart (1990)</td>
<td>Describes the values characteristic of the social and political life in a society. In materialist societies, members give top priority to physical sustenance and safety. In post-materialist societies, members place a heavier emphasis on belonging, self-expression, and quality of life.</td>
</tr>
<tr>
<td>Private vs. Collective Property</td>
<td></td>
<td>Contrasts systems in which the primacy basis of ownership is the individual with those in which the primary basis of ownership is the collective or group.</td>
</tr>
<tr>
<td>Traditional/Charismatic/ Legal-Bureaucratic</td>
<td>Weber (1947)</td>
<td>Refers to the source of legitimate authority in a society. In traditional societies, legitimacy is claimed on the basis of the “sanctity” of immemorial traditions handed down from the past, an order of things which is considered as having always existed. The object of obedience is not an impersonal rule of law, but the personal authority of an individual which he or she enjoys by virtue of his/her traditional status. Traditional authority is bound to the precedents handed down from the past and to this extent also bound to rules. In charismatic societies, legitimacy is claimed on the basis of devotion to the specific and exceptional sanctity, heroism or exemplary character of an individual person, and of the normative patterns or order revealed or ordained by him or her. There is no hierarchy in these societies, the leader intervenes as she or he pleases. Charismatic authority is the direct antithesis of legal-bureaucratic and traditional authority, which are oriented towards continuity in the control of action. Charismatic authority is foreign to all rules; it repudiates written law as well as custom and rejects both institutional and jurisprudential limitations. In legal-bureaucratic societies, legitimacy is claimed on the basis of an abstract and impersonal body of jural rules which have normally been intentionally established according to set procedures. Persons in authority are bound to respect the impersonal order of law, the administration of which consists in the application of the rules to particular cases. The members of the concerned corporate group, likewise are obliged to comply with the law; when they obey a person in authority, they do not submit to an individual but to the impersonal rule as such. Moreover, they are bound to obey a superior only within the limits of the officially promulgated normative rules.</td>
</tr>
<tr>
<td>Preindustrial vs. Industrial Society</td>
<td>Durkheim (1933)</td>
<td>Refers to the degree to which a society is differentiated. Preindustrial societies are undifferentiated. In these societies, social cohesion is based upon a common set of</td>
</tr>
<tr>
<td>High vs. Low Group</td>
<td>Douglas (1970, 1982)</td>
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<tr>
<td>Focuses on the extent to which individuals are incorporated into bounded units in a society. In societies with a high group rating, individuals experience greater incorporation and thus more individual choice is subject to group determination.</td>
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<tbody>
<tr>
<td>Refers to the degree to which individuals’ lives are circumscribed by externally imposed prescriptions in a society. The higher the society’s grid rating the more binding and extensive the scope of the prescriptions and the less of life that is open to individual negotiation. Members of high-grid societies are subject to an explicit set of institutionalized classifications which keep them apart and regulate their interactions with each other. In low-grid societies, individuals are expected to negotiate their own relationships with other members of the society.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Hierarchical vs. Egalitarian</th>
<th>Triandis (1982)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focuses on the degree to which power is distributed unequally among members of a culture. In hierarchical cultures, members accept the division of society into ranks which are subordinate to each other based on personal, social, political, or economic criteria. Members of egalitarian cultures, in contrast, believe in human equality, especially with respect to social, political, and economic rights and privileges.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parochial/Subject/Participa nt Political Culture</th>
<th>Almond and Verba (1963)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Describes the political relations which exist among members of a society and the degree to which those members believe that they have an impact on the political decision-making process or take an active role in the political process. In parochial political cultures, there are no specialized political roles, leadership positions are often diffuse political-economic-religious roles where the political orientations of the roles are not separated from their religious and social orientations. Members of parochial societies tend to expect nothing from the political system and play a passive role in the political process.</td>
<td></td>
</tr>
</tbody>
</table>

In subject political cultures, the political system is differentiated. Individuals are aware of specialized governmental authority and will be affectively oriented to it, perhaps taking pride in it or even disliking it. Members of these societies also evaluate...
whether the governmental authority is legitimate. The relationship between the individual and the system, however, occurs on the general level. In regards to the output, administrative, or “downward flow” side of the political system, the individual’s relationship to the system is generally a passive one. While individuals acknowledge and judge the political system, they expect to have little impact on the political process itself.

In participant political cultures, the members of the society tend to be explicitly oriented to the system as a whole, to both the political and administrative structures and processes. Individual members of the participant polity may be favorably or unfavorably oriented to the political system. Whatever their affective orientation, however, they take an “activist” role in all stages of the political process and believe that their efforts have an impact on that process.

Civic Community

Putnam (1993) refers to the degree of civil engagement characteristic of a society. It contrasts societies which are marked by an active, public-spirited citizenry, egalitarian political relations, and a social fabric of trust and cooperation with those that are characterized by vertically structured political relations, a social life of fragmentation and isolation, and a culture of distrust. A civic community is egalitarian in terms of members’ rights and obligations to the community. In these communities, members are bound by horizontal relations of reciprocity and cooperation and citizens interact as equals. Noncivic communities, in contrast, are characterized by vertical relations of authority and dependency. In these communities, members are found by vertical relations of patronage and act as either patron or client, governor or petitioner.

Degree of Civil Society

Tocqueville (1990) describes the degree to which mediating bodies between individual members and macro governing political institutions are present in a society. A greater number of mediating bodies (e.g., churches, voluntary associations, and local municipalities) exist between the state and its citizens in societies that exhibit a high degree of civil society than in those that do not. In civil societies, patterns of civic involvement and social solidarity are reinforced by members’ participation in civic and voluntary associations.

Top Down vs. Bottom Up

Refers to the source of authority in a society. In top down societies, mediating bodies take direction and explanation from the central governing body – or the top down. In bottom up societies, mediating bodies derive
<table>
<thead>
<tr>
<th>Authoritarian vs. Democratic</th>
<th>Consensual vs. Conflictual Democracy</th>
<th>Indicative vs. Industrial Planning</th>
<th>Unitary vs. Adversary</th>
<th>Explicit/Formal vs. Emergent</th>
</tr>
</thead>
</table>

Authority from individual members - or the bottom up.

Contrasts cultures in which political power is concentrated in a leader or an elite not constitutionally responsible to the people and cultures where the supreme political power is vested in the people and exercised by them directly or indirectly through a system of representation usually involving periodically held free elections.

Focuses on the type of decision-making mechanism used to resolve economic disputes in a democratic society. In consensual democracies, the government negotiates with interest groups (e.g., unions, employers, or trade associations) in order to determine economic policies. In competitive democracies, institutions and interest groups develop alternative on which votes then decide.

Describes the decision-making process characteristic of the industrial policy formation process in a society. In societies that engage in indicative planning, the government and representatives from key sectors of the economy or enterprises develop a national industrial and economic plan through a consensual, negotiation process. In societies that engage in industrial planning, the government directs corporate action through mandate and regulation. Pure indicative planning relies entirely on changing the expectations of decision makers at the level of the firm. Industrial policy, by contrast, seeks to induce decision makers to behave as they would otherwise have done by providing incentives, or imposing restrictions, directed at specific sectors, industries or firms.

Contrasts polities which are structured around the assumption of common interests among their members with polities that are structured around the assumption of conflicting interests among their members. In unitary societies, the mode of decision making is primarily persuasion. In adversary societies, the mode of decision making is primarily power.

Refers to the degree that a priori rules and policies guide individuals’ actions and behaviors, structure institutions, or establish legal boundaries within a culture as opposed to cultures where rules and policies develop as a consequence of social interaction, communal experience, and precedence. For example, a more formal society might adopt the Napoleonic code - a set of legal principles defined a priori - as its legal system in common law - a set of legal principles.
<table>
<thead>
<tr>
<th>Type of Organizations</th>
<th>Source</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizations as Political Systems</td>
<td>Laurent (1983)</td>
<td>Contrasts cultures in which organizations are perceived and defined as primarily political systems with those in which they are not. Evaluates the degree to which managers play a political role in society, members of a society perceive power motivation in organizations, and organizational structures are clearly defined.</td>
</tr>
<tr>
<td>Organizations as Authority Systems</td>
<td>Laurent (1983)</td>
<td>Contrasts cultures which have a more personal and social concept of authority to cultures which have a more rational and instrumental view of authority. In the former, authority regulates relationships between individuals in organizations and is therefore considered to be a property of individuals. In the latter, authority regulates the interaction between tasks or functions in organizations and is therefore considered to be an attribute of the role or function.</td>
</tr>
<tr>
<td>Organizations as Role Formation</td>
<td>Laurent (1983)</td>
<td>Focuses on the degree to which a society favors role formalization as an important structural characteristic of organizations. In other words, how important is it to members of society to define and specify the functions and roles of organizational members.</td>
</tr>
<tr>
<td>Organizations as Hierarchical Relationship Systems</td>
<td>Laurent (1983)</td>
<td>Focuses on the degree to which members of a society value strict adherence to established or clear cut lines of authority in their organizations. In countries that score high on this dimension, belief that managers should know more than subordinates is great. In countries that score low on the dimension, individuals find it acceptable to bypass the organizational hierarchy or report to more than one manager. May determine the ability of organizations within a society to adopt new organization forms such as the matrix organization.</td>
</tr>
<tr>
<td>Literate vs. Nonliterate</td>
<td></td>
<td>Contrasts societies in which members are able to read and write with those in which most members are not able to read or write.</td>
</tr>
<tr>
<td>Monotheistic vs. Polytheistic</td>
<td></td>
<td>Describes the religious beliefs characteristic of a society. Members of monotheistic societies believe in the supremacy of one god or deity while members of polytheistic societies believe in the power and importance of multiple deities.</td>
</tr>
</tbody>
</table>
### APPENDIX 2

**CULTURE AREAS (HOFSTEDE)**

<table>
<thead>
<tr>
<th>More Developed Latin</th>
<th>Belgium</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>Spain</td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td><strong>Less Developed Latin</strong></td>
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<td></td>
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<tr>
<td>Columbia</td>
<td>Mexico</td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td>Costa Rica</td>
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<tr>
<td>Chile</td>
<td>Guatemala</td>
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<tr>
<td>Panama</td>
<td>Peru</td>
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<tr>
<td>Portugal</td>
<td>Salvador</td>
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<tr>
<td>Uruguay</td>
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<td></td>
</tr>
<tr>
<td><strong>More Developed Asian</strong></td>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td><strong>Less Developed Asian</strong></td>
<td>Indonesia</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Thailand</td>
<td>India</td>
<td></td>
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<tr>
<td>Malaysia</td>
<td>Philippines</td>
<td></td>
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<tr>
<td>Hong Kong</td>
<td>Singapore</td>
<td></td>
</tr>
<tr>
<td><strong>Near Eastern</strong></td>
<td>Arab Countries</td>
<td>Greece</td>
</tr>
<tr>
<td>Iran</td>
<td>Turkey</td>
<td></td>
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<tr>
<td>Yugoslavia</td>
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<tr>
<td><strong>Germanic</strong></td>
<td>Austria</td>
<td>Israel</td>
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<tr>
<td>Germany</td>
<td>Switzerland</td>
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</tr>
<tr>
<td><strong>Anglo</strong></td>
<td>Australia</td>
<td>Canada</td>
</tr>
<tr>
<td>UK</td>
<td>Ireland</td>
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<tr>
<td>New Zealand</td>
<td>USA</td>
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<tr>
<td>South Africa</td>
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<td><strong>Nordic</strong></td>
<td>Denmark</td>
<td>Finland</td>
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<tr>
<td>Netherlands</td>
<td>Norway</td>
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<td>Sweden</td>
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</tbody>
</table>

APPENDIX 3
MEASUREMENT GROUPINGS (NOBES)

<table>
<thead>
<tr>
<th>Culture Areas</th>
<th>MICRO-BASED</th>
<th>MACRO-BASED</th>
<th>MACRO-BASED</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Hofstede)</td>
<td>Business</td>
<td>Business</td>
<td>Government</td>
</tr>
<tr>
<td></td>
<td>Economics</td>
<td>Practice</td>
<td>Continental</td>
</tr>
<tr>
<td></td>
<td>UK</td>
<td>USA</td>
<td>Tax-Based</td>
</tr>
<tr>
<td>More Developed</td>
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<tr>
<td>Latin</td>
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<tr>
<td>Belgium</td>
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<td>France</td>
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<td>Spain</td>
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<td>X</td>
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<td>Italy</td>
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<td>X</td>
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<td>More Developed</td>
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<td>Asian</td>
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<td>Japan</td>
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<td>Germanic</td>
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<td>X</td>
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<tr>
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## APPENDIX 4

### MEASUREMENT GROUPINGS (NAIR & FRANK)

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# APPENDIX 5

**DISCLOSURE GROUPINGS (NAIR & FRANK)**

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APPENDIX 6
QUESTIONS IN SEMI-STRUCTURED INTERVIEWS AT VOLVO

Part 1: Personal Details
• Female/Male?
• Age?
• Nationality?
• What was your nationality at birth?
• What country have you lived in most of your life?
• What languages do you speak?
• What level of formal education did you achieve?
• Do you belong to any professional groups?
• If you studied beyond secondary school, what disciplines have you majored in? E.g. accounting, economics, management, marketing, science, social science, engineering, education.
• If you studied accounting, did you study financial accounting, management accounting, cost accounting, others?
• Have you ever worked for another department apart from accounting/finance department?
• Have you ever worked for another car manufacturing company?
• Have you ever worked for another industry?
• How long have you been employed at Volvo?
• How long have you had your present position?
• Anything you need to add to your job description?
• Have you noticed any changes in your duties since you started working here?
• Can you give me a brief outline of what your department does in the company (e.g., how to account for overheads, budgeting etc.).

Part 2: Cost Accounting
• What cost accounting system does Volvo Truck Australia use? How do Volvo allocate overheads (factory burdens)
• What is your involvement with the cost accounting of Volvo? What tasks?
• What role does costs play? Pricing role with regard to functions? Performance evaluation?

If Traditional costing:
• Why? Cost vs. benefit.
• Are you aware of the arguments often put forward with contemporary costing methods such as ABC (More accurate costing system which will lead to a better basis for different product-related decisions, such as outsourcing decisions, product mix decisions and product pricing. Hidden profits will be revealed and it will be possible for managers to assess product, customer, and market profitability on a sound basis)
• Are you aware that Volvo in Sweden is using ABC (see Ask, Ax and Jönsson 1994, 19)

If ABC is used?
• When was ABC/ABM implemented and why?
• What are the benefits with ABC compared to the costing system previously used?
• What information has ABC provided?
• Any improvements?
• Costs vs. benefits?
• What modifications?
• Any improved profits or loss of products?
• Have you noticed any significant changes in the management accounting function?
• Do you believe cost accounting could be performed by engineers and empowering the work force? i.e., bring ABC down to the factory floor to the users of it?

• What do you know about lean production and Japanese management and management accounting techniques such as JIT, Target costing, Kaizen costing?

If yes,
• Where did you hear/learn about Japanese management techniques?
• Do you know if Volvo has contemplated using target costing etc.?
• In Japan most Japanese firms have rotation programs for engineers designed to expose them to other aspects of the business, one of them being management accounting tasks associated with cost management. In Western firms, where such programs do not exist, management accountants currently perform many of these tasks. Can you see this happening to Volvo in Australia or other Eastern firms?

**Part 3: From beancounters to ‘new management accountants’**

Do you see yourself as a beancounter who do not understand the business and views everything in terms of accounting numbers, or:

• Do you have a clear understanding of business imperatives?
• Do you see yourself as a provider of useful and relevant information for operational managers?
• Do you allow accounting numbers and procedures to dominate?
• Do you spend significant amounts of time with operational managers and work in teams with a wide range of personnel?
• What is your relationship with other departments?
• If using ABC, do you feel other departments (managers) put more trust in the accounting data produced by the management accountants?
• How much time is spent in office versus time spent on factory floor? In Japan 80% in factory, 20% in office. In West it is the opposite way.

**Part 4: Factory vs. administration location**

• How close is Volvo Truck’s administration (finance) geographically to the plant?
• Can you see any advantages of being this close/closer to the factory?
• Good points vs. bad. Why?
• Any suggestions of moving out to the factory?
• What is the level of interaction with factory personnel, e.g. operations manager?

**Part 5: Accounting information systems**

• Do you know when the current accounting information system was implemented?
• Do you know what department that designed and implemented it?
• Were you involved, or any other person from the finance department, when the information system was design and implemented?
• When you receive you spreadsheets, computer printouts and transaction vouchers, are they supplied by the information systems department?
• Do you consider yourself having a passive or active role with the development of information systems?
• Do you know the traditional systems development process?
• Do you know what participatory design is? Participatory design of information systems is when all users of the system must be involved in the development of it. Here the systems analysts play a more supportive role as a systems expert making recommendations, providing advice and teaching techniques. The decisions are, however, made by the managers and non-managers. Participatory design is said to be more effective, adapt better to the user, user become more competent, communication is enhanced throughout the organisation, and both the user and system experts learn to perform better.

Part 6: Performance evaluation

• What is the role of financial versus non-financial information (e.g., TQM)?
• How is corporate performance evaluation carried out?
• Do you use balanced scorecards? i.e., do you supplement the quarterly and annual financial measures of corporate performance with the drivers of long-term financial performance, such as customer performance, internal process capabilities, innovation, employee learning and improvement?
• How often do you create an income statement? Quarterly, daily?
• Do you believe daily income statements could be used as feedback on the operators’ quality improvements efforts; help them set priorities for investment and improvement activities; and help them evaluate the tradeoffs among quality, cost, and throughput? Secondly, would you also believe daily income statements empowers operators for on-the-spot decision making? Would all this help implement a TQM and continuous improvement environment?
• What financial information do you give employees? Do you give them standard costs and variances or technologies, capabilities, markets and strategy of the organisation?
Part 7: Budgeting procedures

- How do you come up with your budget?
- Decentralised vs. centralised budget procedure? Authoritarian vs. participative. In an authoritarian management system the budget is determined by the managing director.
- Who is involved in budgeting, and why? How often are people involved? What is the nature of their involvement?
- Do you believe Volvo is managed almost exclusively on numbers, and generally financial ones?, or are values more fundamental than financial objectives?
- If balanced scorecard is used, are the strategic plans and operating budgets performed simultaneously?
APPENDIX 7

TRANSCRIPTS OF SEMI-STRUCTURED INTERVIEWS AT VOLVO.

Questions and answers during interview with Volvo Australia employees.
(Q) - Question from interviewer, Ebba Åhl,
(A) - Employee response to questions

Interview 1: Jason Tellett

Q: Where do you come from and what are your qualifications?
A: I am English and have been in Australia for three years. During those three years I have worked for 18 months at Ajax Chemicals and 18 months at Volvo in my current position. I did a Bachelor of Arts (Honours) in Economics, majoring in business accounting and finance. I am a member of the Charted Institute of Management Accountants in England, which is a world wide recognised professional organisation. In my bachelor degree I studied financial accounting, management accounting and corporate strategy accounting, but not as much cost accounting, which is part of my job today.

Q: Where have you worked previously?
A: My previous work experiences include a Graduate traineeship at International Computer Company Ltd. (ICC) and as a business accountant in the marketing department at Imperial Chemical Co. (ICI).

Q: What is your present position?
A: My position at Volvo is coordinator of forecasting/planning process, business analysis and collation of dealer financial results. It is a newly created position that originally was supposed to deal with the accounting information system, but now is mainly within budgeting and forecasting, pure management accounting. I have set up an accounting system for the budget, but that was as much of the information system as I have been involved in.

Q: What are the main responsibilities within your position?
A: Many of my duties are now to provide information to the head office for the Asia/Pacific region in Singapore. Much of the work done in Singapore today used be done by the head office in Sydney which constitutes being the administrator and marketer for cars and trucks in the Asia/Pacific region. During the last year the Singapore office has started to take over the duties and now act as an intermediary between Australia and Sweden.

Q: Why is that?
A: One of the reasons is that they are geographically closer to most of the Asia/Pacific countries, and closer to the head office in Sweden. In Singapore they have their own requirements on what to report, so as a consequence, I have to supply information to both Sweden and Singapore.

Q: What type of information do you supply?
A: I supply the office in Singapore with all the forecasting (growth, profitability and sales figures) concerning Australia and the more analytical figures such as economic development in Australia, market share, etc. which Singapore later sends to Sweden.

Q: What information do you send to Sweden?
A: The quarterly forecasts and the annual budget are sent to Sweden together with the strategic plans such as the 3 year business plan.
Q: Why was it necessary to set up the new computer system for forecasting and budgeting?
A: Partly because of the new head office of Asia/Pacific in Singapore and their demand for information, and partly because of the bad times right now for Volvo in Australia: “In good times no one cares about expenses, but when car sales are disappointing you tend to find that when you are not performing as well, people want more information why expenses have increased, why as many cars haven’t been sold.

Q: Did the boom, experienced in the small car market and the resultant increased competition from Japanese manufacturers in the region, have a great effect on Volvo Australia?
A: Volvo, unlike many Japanese competitors, is included in the luxury car segment which is fairly static, but the luxury car segment has become smaller as a consequence of the increased small car segment.

Q: How has Volvo tried to counteract these market changes?
A: Volvo is trying to increase its market share by introducing new series such as 850, S70, S40, V70, V40 and the C70 which has caused quite a big boost in sales during the last couple of months. (The C70 was also used in the movie The Saint starring Val Kilmer.)

Q: At what stage of production do both cars and trucks enter Australia?
A: All the cars are brought in from Sweden, so they are not assembled here in Australia. Trucks, on the other hand, are assembled in Brisbane. The downside of shipping over the cars CBU (completely built up) is that a fairly high import duty has to be paid of 22%, whereas the trucks do not have the 22% tax since they come from Sweden CKD (completely knocked down) and get assembled here in Australia and Australian people are employed to do it.

PART 2: COST ACCOUNTING
Q: What type of costing system do you use?
A: We use an absorption costing system. First Volvo forecasts how many trucks will be sold and then how many labour hours that it will take to assemble them. So if there is an overhead cost of $10.000.000 it will be divided into how many labour hours there are. This is a very traditional way of doing cost accounting and it does not always reflect the most accurate figures. Especially not when labour hours in general at Volvo truck only constitute less than 5% of the total costs.

Q: Have Volvo ever considered an alternative?
A: Volvo in Australia have considered introducing ABC but it came to the conclusion that it was not worth the costs to get the benefits.

Q: What is your personal opinion?
A: I believe it is only worth introducing ABC in a company that has a large product range, whereas Volvo only has 8-9 different models of trucks.

Q: Do you know if Volvo in Sweden are using ABC?
A: No, I do not think they do. Because the way Volvo in Australia report their costs back to Sweden is the same worldwide for Volvo.

Q: Can you give me an example?
A: An example would be overhead recovery which is part of the format that all Volvo branches have to use. This term is a very traditional way of dealing with costs. Going back to the example of $10.000.000 in overhead and 1.000.000 hours, you add $10 as overhead expense on the product, so you budget over the year to recover all the overheads of $10 per hour. For every standard hour produced recovers you
$10. When we say recovery we are talking about building it into stock, so that $10 is being added to the product cost, so every time that standard hour is recorded it is being added to the value of the product cost by $10. So in accounting terms the price will increase with $10.

Q: Do you think ABC is a more accurate way of treating costs?
A: Yes, but I still believe it is not suitable for Volvo in Australia.

Q: Is there any evidence of its use in Volvo Australia?
A: Once a year, we go down on the factory floor and go through the costs (such as price of material, total overhead cost) to update them. This is an ongoing part of the budget process. To do this on a larger scale by looking at every cost driver and all the processes you need a great accounting system which can be a fairly expensive exercise if the company has to purchase or develop a whole new accounting system.

Q: Are you familiar with Japanese forms of management and management accounting?
A: I am not too familiar with Japanese management and management accounting except for JIT and TQM. Most companies today are all aiming for JIT.

Q: How is JIT different to ABC?
A: It is not like ABC which is a completely new cost accounting system. "JIT is basically getting in bed with your suppliers". That is the expression used by company, which means making sure, what we call a win/loose situation, that you get what you have ordered at the right time. It is all about putting trust in your supply chain. Inventory is seen as a liability.

Q: Is this a major focus for Volvo?
A: Volvo is aiming for this, but it is only possible to a certain extent. Volvo is always looking to minimise stock. Of the supplies to assembly trucks 80% comes from Volvo in Sweden. So there is really no excuse when is comes to suppliers. But then there is the 3 months lead time which is the major problem. The further you go in the future with your forecast the harder it gets. You might be able to forecast what you are going to sell next week, but to forecast what will be sold in 3 months is more difficult. So in order to get the right stock arriving at the right time, minimising stock becomes rather difficult.

PART 3: FROM BEANCOUNTERS TO 'NEW MANAGEMENT ACCOUNTANTS'

Q: When it comes to the role of the accountant, are you called a ‘beancounter’?
A: I get called a beancounter every day. I do not believe I am a beancounter, if anyone is to be called the beancounter it should be the financial accountant since they deal with the financial statements.

Q: Do you have good communication links with other departments?
A: Yes I have good communication with other departments. When I do the forecasts I will get in contact, through memos, with the marketing department to get the expected market share. This expectation will determine how many trucks the factory in Brisbane will assemble.

Q: This sounds like a lot of responsibility for you?
A: The ultimate decision lies with the head of finance and the national head of marketing. Basically, I work with most of the departments, such as the factory, sales, marketing.

Q: How do you see your role within Volvo?
A: I see myself as the coordinator of accounting information, I put it all together and come up with a bottom line.
Q: Do you think the information systems have improved in Volvo Australia?
A: Compared to a couple of years ago, the information flow today is a lot more efficient especially with the additional accounting system covering forecasts and budgeting on spreadsheets which was only implemented 18 months ago. As a consequence there are a lot more details in the management accounting reports produced today such as key performance indicators, whereas before there were mainly actuals and budgeted figures.

PART 4: FACTORY VS ADMINISTRATIVE LOCATION
Q: When you get the information from the factory, do you actually go to the factory yourself and pick it up?
A: No, I don’t have any financial contact with the factory, that is the factory accountants job, so I speak to him regularly. The factory accountant gives me comments on the financial side of the assembling of trucks.
Q: So there is one factory accountant, or more?
A: No, there is a team of 3-4 accountants in Brisbane at the factory.
Q: Do you see any advantages of having the factory in Brisbane, or would it be better if it was located near the head-office in Sydney?
A: This is an age old question since Volvo came to Australia. When looking at the market, the main question of whether the factory can deliver the truck on time.
Q: Yes, but why isn’t the factory here in Sydney instead of Brisbane? You say it is an age old question, why hasn’t anything been done about it?
A: That is a very good question. If you had a much longer term strategy, maybe looking at 20 years it would be better to move the factory. But the company tend to look on it from a short-term perspective.
Q: Wouldn’t it be better for the company to look long-term?
A: Well, the question that needs to be addressed first is that a lot of truck manufacturers go into CBUs, which would mean closing down factories. That is the trend. Now, we are trying to increase our market share and if we were to close the factory we would loose market shares. But when looking from a 20 year perspective the factory might be wound up. But there is another question as well, do we want the factory?
Q: You were saying that you would loose market shares if you close down the factory and use CBUs manufactured somewhere else in the world? Why is that? Because the trucks wouldn’t be delivered as quickly?
A: Australian industry is based on looking after Australia.
Q: So if the trucks are manufactured in Australia the market will respond more positively?
A: That is part of the reason, yes. The other reason is that we have a lot of orders for trucks that are customised and there are many different options to choose between. So it would be difficult when the truck takes three months to get here, to get exactly the truck the customer wants, since they might change their mind.
Q: Would it be the same problem with Volvo cars?
A: It is a lot easier with cars, there are only the accessories that changes. With trucks the customer can choose between different gearboxes, etc.
PART 5: ACCOUNTING INFORMATION SYSTEMS
Q: When you started 18 months ago, did you set up a whole accounting information system?
A: The only thing I have changed is the forecasting processing and budgeting, the actual system itself was already here.
Q: With the accounting information system, was it designed and implemented by accountants or by computer analysts? For example with you budgeting program, did you give instructions to a computer analysts on how to do it, or did you do everything yourself?
A: No, I did that on my own. We have a slight problem with the link between the finance department and the information systems department.
Q: Are you in the same building?
A: Yes, that's where all the programmers are, so when we need to change something in the interface into the finance system we have to go through them.
Q: So you give instructions and they do the changes?
A: Yes. Now, one of my roles is to act as an intermediary between the finance department and information systems department, and to make the system flow better. If you look at the advertisements in the paper when companies are looking for management accountants they ask for management accountants with information systems development skills.
Q: Do you believe it would be a good idea for the company to have ongoing training for the information systems department so that they could learn about accounting and design and implement better accounting systems?
A: Yes, maybe. The thing is that you've got two exchange programs, the person who is pretty skilled in information systems and programming who doesn't have any financial background, and then of course the accountant with no information systems knowledge. The idea would be a person with all that knowledge, for example an accountant working for the information systems department.
Q: Going back to your communication with other departments, for example, the marketing department or the factory, you get information from them to put the budget or forecast together, does the information come through the information systems department?
A: What I do, I set up a spreadsheet for all the managers in the different departments, and they access the spreadsheet by going in to my excel program, in the end I consolidate all the departments budgets. Then again, before I came they wouldn't have done it this way. We have varying degrees of computer use. Some guys use the computer every day, whereas others use it less.
Q: Do you see that as a disadvantage that not everyone uses the computer? Do you think everyone in the accounting department needs to know how to use a spreadsheet etc.?
A: Definitely.
Q: A final question about information systems, do you see yourself as having a active or passive role in information systems?
A: Depends if you are talking about systems in general or software?
Q: The accounting systems.
A: I consider myself as having an active role.

PART 6: PERFORMANCE EVALUATION
Q: What is the role of financial versus non-financial information?
A: Most of the key performance indicators we use are financial.
Q: Do you have a list of your KPI's?
A: Yes, of course (see Appendix 8). The format we use is to have four or five KPI's for each area of the company, we've got marketing area, factory etc. What we have here are the company indicators, so what we are tracking here is the profit of Volvo Truck Australia, and we base it on the moving 12 month average. We put in the plan which is the budgeted figure, and compare it to what actually happened. As you can see it is a bit disappointing when you look at the graph on income before tax.
Q: Apart from profit, what other indicators do you have?
A: We use domestic market share; operating percentage of sales which controls if we are not selling much if we are controlling our expenses, are we matching our expenses to our income; truck pipeline which controls concentration of inventory, which means goods in transit on water from Sweden, the number of trucks that are work in progress in the factory, number of trucks that are finished and are waiting to be sold, and then just a couple of demos that we have in stock as demonstration for customers; inventories; and domestic receivables. So we've got those 6 which are the total company ones. Then we go into different sections (see page 13, 16, 18-21, 23, 25-26.). On page 13 we have truck marketing and again it is financial measures really, such as operating income. FL10 is a particular truck and what they were trying to do was to increase the market share on that model. We are also trying to sell to national fleet rather than selling to single truck operators, we sell 10 trucks and make a slightly lower profit but we wanted to control the national market. These are key performance indicators, we are just trying to focus on the areas that need attention.
Q: These are all financial, do you have any examples of non-financial indicators?
A: One example of non-financial is within marketing, but we still haven't produced it. It is the percentage of delivery times that were late.
Q: So you haven’t started using it yet?
A: No, it is difficult to get the information. You might take an order from a customer to be delivered in 6 months, and then they might come back three months before due date and change, and then they change it again and again. So it is difficult to know what date to use. Here is one non-financial indicator on page 16, average processing time of warranty claims, would have more to do with that. This is when a truck customer puts a claim in, it goes through a system in the truck service department. Here is another one, outstanding Wacol quality journals. Wacol is the factory, and what happens is when a faulty part is found a report goes back to Sweden to rectify the problem. They are what we call quality journals which is a key indication to Sweden. So again, it is really a measure of service of warranty claims. On page 18 we have Wacol factory overhead, which would be the equivalent of the $10 million that I used in the previous example on overheads.
Q: Have you ever heard the term balanced scorecard?
A: Yes, the car company uses it in Sweden. I've got the ones they use in Sweden here, and Australia Car has tried to use a couple of them, but they can’t make up their mind which ones to use.
Q: Do you think you might start using the scorecard?
A: Yes, I think so. It is a concept which is being communicated but there’s really been no sort of training or formal communication. Tore gives me papers to read about examples used in Sweden. I might get around to look into it in July when Sweden goes on holiday. One thing we have done is a customer service survey. We sent out a questionnaire to the different departments in the company and asked them
about the finance department’s service asking about getting reports on time, what response do you get from the information desks etc. So we’ve started on an internal basis to integrate financial and non-financial indicators. This is an area that we are very interested in.

Q: When it comes to financial and non-financial information, how much do you give out to the other employees? Do the people on the factory floor get a copy of the company’s results?

A: What we have done, since Tore started we have introduced employee information which shows you the performance of the company every month such as total sale, market share, operating expenses, income before tax compared to the budget (see Appendix 9). This information sheet is on the notice boards all around the company.

Q: How often is the employee information sheet updated?

A: Once a month. This is part of total quality management. I have worked with TQM before and I have found that the bigger the company, more priority is given to TQM.

Q: Going back to the employee information sheet, how long have you been doing this?

A: For about 12 months.

Q: Have you contemplated doing it more frequently?

A: I guess we could, but I think once a month is good.

Q: In the employee information sheet, do you include variances?

A: Yes, there are two columns with actual and budgeted figures and underneath that some brief comments explaining the variances between budgeted profit and the actual profit. You have to keep the information on a level so everyone can understand it.

PART 7: BUDGETING PROCEDURES

Q: When you do the budget, do you get instructions from Tore or do you only follow the information given to you by the other departments?

A: The basic assumptions have to come from Tore or Anders Levin (the General Manager). They determine, for example, what salary increase. What I do, I send the assumptions, such as total market, market share, how many trucks we are going to build.

Q: What about target profit? Who sets that?

A: Again, that is decided by Tore and Anders in the general meeting.

Q: When you do the budget, do you have budget meetings, and who is present?

A: Tore, Anders, the cost centre manager for the department involved, the finance department.

Q: Going back to the issue of financial and non-financial information in the budget, would you say that the managing director, Tore, or you are managed by numbers exclusively or would you take non-financial indicators into consideration when you determine the budget?

A: If we take the quality problem with the truck engines, for example, we have budgeted this year to actually bring a lot of the trucks back in and replace them. So we take considerations like that. I guess it is all about matching priorities with expenses.

Q: Going back to the problem with the engines, what would you do to prevent this from happening again.

A: That is where the quality journals come in the picture, because the engine is developed and manufactured in Sweden. All the engineering is done in Sweden.
Interview 2: George Perez De Arce

Q: Where do you come from, George?
A: I’m from South America, Chili. I’ve been in Australia for the last 12 years. Let me give you some of my background. I came from Chili back in 1985 and I joined the company to learn English. I went through different stages in the company, starting with a clerical position for 3 years, then I was promoted to supervisor and so on. My English completely dominated what position I had. The company gave me good help. I remember I had an English tutor for two years here at Volvo who taught me conversation English. At University at home we used English books, but I still had to learn conversation English. You need to be able to think and speak the language.

Q: Why did you move to Australia?
A: Actually, I came here because of my sister. She always asked me to come here because there are so many opportunities here. It is a rich country with lots of natural resources, growing industries, etc.

Q: Australia is very multicultural.
A: Australia has got a multiethnic background. We have had a lot of fun here. In the beginning I was a little bit ashamed of making mistakes and speaking during meetings.

Q: But there must be a lot of Swedish people working here with the same problem?
A: In fact, the boss I had 3-4 years ago had a very strong accent, and it was very hard to understand him. But he was always talking and talking, so I guess people develop confidence.

Q: Do you think you might go back to Chili one day?
A: Maybe, the company is world wide and I might go somewhere in South America with the company because I speak Spanish well. If the opportunity comes I will certainly take it.

Q: So you have been working here for 12 years.
A: Yes, I actually came to the company in 1985 and stayed up to 1989 and then I went to work for another company within the Volvo Group, Volvo Construction Equipment. They manufacture all the equipment. The company was previously named VME, Volvo Michigan Euclip. Volvo was all the trucks and machines, and Michigan had the lotus, which have big rubber tires, and Euclip which is a mining truck that weighs from 35-400 tons. I worked for VME for four years to set up the business because they were at a stage of stalling operations in Australia.

Q: So Volvo Group consists of Volvo Car, Volvo Truck and VCE?
A: You have also got Volvo Bus. Now, my position here is basically management accounting with Volvo Truck and Bus.

Q: So you went from being a clerical assistant to management accountant?
A: Yes, I started off as an accounts payable clerk to develop my English. I got promoted to supervisor and moved up to a position in the overseas department of inter-company accounts payable and accounts receivable. This is back in 1987, now it has all changed. Before that Volvo Australia had all the divisions here in Australia, Volvo Car, Volvo Bus, Volvo Truck, Volvo Construction Equipment and we also had Volvo Hydraulics division. All those divisions were one company. Then Volvo went through a world wide reorganisation and divided it into different companies and business units. At this stage I moved out to VCE and I went in as operations...
Q: When I look at your job description it says financial support in truck/bus marketing/service areas, expense control, sales and gross profit analysis, warranty/goodwill account reconciliation. Is there anything you want to add?

A: I also do operating statement control for the management, I work with the marketing manager, the sales manager, the parts manager, the service manager and the bus manager. The guys in finance run the management reporting of the operating statements reports and I give them support in terms of advising if anything is wrong. They come to me or I go to them and say, look what is wrong with this I need some kind of explanation. We do a bit of following up on the monthly reports. I also look through all the balance sheet and provisions, anything that is related to operations, like the truck, service, bus, parts. I am responsible for all the provisions of the company. With provisions I mean warranties, if I need to set some provisions for the warranties, look through all the warranties for trucks mainly truck operations. The warranties works like either a follow up from the budget, and provisions every month that we sell. Lets say we sell a X model, so this truck will have to give you X amount of dollars, lets say $1500 as a provision for parts that go faulty. So you create big warranty provision accounts that you need to check, analyse and monitor.

Q: Do you also check on the quality of the truck, to make sure this doesn't happen again?

A: Well actually within the service department we make sure the plan of the provision account is the one we are actually expecting. If we are above we do an investigation in to why this is happening, then we go back to the factory or even back to Sweden because the truck parts are from Sweden. So if we have a major problem with the engine we go straight back to Sweden. The service department do the following up, but I put my eyes on the figures and make a few assumptions of what is wrong.

Q: So you have a lot of communication with the service department?

A: Yes, every month we sit down and follow up the quality of the trucks. The service department have quality meetings all the time every 3 or 4 weeks, but we do follow that up from the operating statements. This is the warranties, I also prepare all the forecasts for truck and bus. I prepare all the information, so I sit down with the sales manager and go through and determine if we are OK with the budget or should we change the forecast, follow up figures such as volumes, profit analysis from a forecast point of view. I also do the forecast for operating expenses and operating income.

Q: What is the difference between the forecast that you do and the one Jason does?

A: We need to distinguish that very clearly. Jason puts everything together for the company, so he deals with Sweden direct in order to provide all the information when it comes to consolidation world wide. He does the forecast and the budget, but all the information he gets from us. So Jason does truck, bus, parts, service but also Volvo car. The finance department process information for Volvo truck and bus, and car. So Jason provides this information to Sweden, whereas I work directly with the operations of the truck with the service side, the marketing side, and the product and parts sides. If we sold x numbers of trucks in a month I have to make sure that the sales report is correct, and provide the true information. I have to do a gross profit analysis one each model, and make sure it is correct. So in other words you have two companies, Volvo Car and Volvo Truck. I am the management accountant for Volvo
Truck which also involves bus operations. I provide all the information on the reporting, financial forecasts, budgeting to the guys in the finance department.

Q: So you are not a part of the finance department?
A: No, I am not. I work for Volvo Truck, very close to the managing director of Volvo Truck and advise him in accounting and financial issues. I also work very close with all the managers in the different divisions in Volvo Truck, product, marketing, service and parts.

Q: Who has your position on the car side?
A: They haven’t got anyone, they have a young lady who just started. The nature of the car operation is different since they do not assembly the cars here, they bring them over from Sweden. We also have a financial controller in our plant in Brisbane, and I deal with this guy very much when we do our profit analysis and even when we do our plan we rely on the information the financial controller at the plant gives us to put our costing together. I need to go through the model cost on all our product range and see how we are going to plan our gross profit. So I get involved in the budget process, because I do the preparation.

Q: So Jason does the budgeting for the whole group, whereas you do the budgeting for Volvo Truck.
A: Yes, I am also responsible for the contingent liabilities, month end figures, financial analysis, authority and signature, management and board reports, administration support and Volvo contract maintenance.

Q: I might start with the questions I have got prepared for you before we run out of time.

PART 2: COST ACCOUNTING
Q: Can you tell me about your role in absorption costing at Volvo Truck.
A: All the absorption costs, or cost accounting, are managed at the plan level, so the financial controller is fully involved. Obviously, you have the manufacturing side which consists of three elements of costs: direct labour, direct material and overhead costs. All the three things are handled by the financial controller and the finance department. When the costs of the finished products get to me, then I take the cost of the truck and make sure it is correct. I look at the variances accounts from the factory and look at the progress and movement. If the variance is higher or lower then something is wrong with your standard costs. For instance, if we are selling a FL7 truck for $95 000. Now, that is the standard cost already set out up in the factory, if we look through the forthcoming month on variances, for instance freight or overhead variances, and it is in excess high it means that the factory finance controller has under-provided for the costs so we have to go back to the factory and do an investigation.

Q: Does that mean you go to the factory yourself?
A: I go to the factory, but not to do anything within this area. That is done by the financial controller, but I put my eyes on it and advise that there is a problem. This is how I get involved in the cost side. When they send me their model costs on each model, I make sure it will not change over time. I make sure the model cost is correct. Going back to your question, I cannot give you a more specific answer because I do not get involved in that area, that is the factory’s job.

Q: Have you heard about ABC? Are you aware of the benefits with ABC?
A: I read about ABC in a course I did at University of New South Wales, School of Management. I guess the main advantage of ABC is better cost absorption of the elements involved with the production or service.

Q: Do you know if Volvo Australia has thought about implementing ABC?
A: I do not think so. The main reason would be that we do not have a very large product range where you can justify a complex costing system. Our product range is limited to 7-8 models, and our volume is not that high.

Q: Do you know if they use ABC in Sweden?
A: I do not know. They might because that is where all the production is. In Sweden they start production from zero value, whereas we here in Australia bring CKD (completely knocked down) components over from Sweden and start production with 40% of final production. The CKD components are engines, drive lines, caps, and then we put them all together here, so we have an assembly process instead of a manufacturing process that starts from zero. That is why I do not see any justification of having a more complex costing system.

Q: Do you think the costing system is accurate because you do not have that many products and you do not produce on a very large basis.
A: Yes, that is right. As I said before, we continue to revise the costing system so the cost provided at the beginning of the production year is in accordance with the plans.

Q: So you revise the costs every year to see whether any prices have changed?
A: Yes, so you could say we are using an adaptation of ABC because the three elements of the cost of the truck includes the activities that are not directly related to the production of the trucks. In some ways we locate the indirect labour and incorporate it into the cost of production of the truck. This is only an example of how we take things into our calculations that is normally out of production allocations.

Q: Jason said, that when you proportion the overhead out to the different products you use direct labour as the basis for it. He also said that direct labour is less than 5% the total cost. Do you think that is an accurate allocation?
A: No, to me that is not accurate.

Q: In the old days I guess labour costs were a large proportion of the total cost, therefore direct labour was a accurate allocation base.
A: For me it is whether you are consistent. Consistency makes your costs valid in a large period of time. Whereas when you are not consistent you cannot compare different periods with each other, and you loose track of you accuracy on that period of time.

Q: Today you really need to have accurate costs to be able to survive. Next I would like to find out how much you know about Japanese cost accounting. Have you heard about lean enterprises, TQM, Kaizen costing, JIT?
A: I have heard very roughly about Japanese management techniques, but what I am quite involved in is TQM. I did a two year TQM course at University, and Volvo has actually invested in a kind of continuous improvement. On the production side I cannot give you an answer, but I know that our factory has during the last two years been doing a lot of TQM, mainly on the reduction of lead time, improving quality indexes of the models, changing the environment production facility and premises making it much nicer for people working there to get more productive people. We use our quality indexes as an index to measure the level of progress in our quality management. I have got some factory KPIs here, for example Wacol material stock level, Wacol inventory, base coverage of inventory.

Q: Jason gave me a list of KPIs, are they the same?
A: Yes, truck assembly will be under Volvo Truck Australia: Inventories - value/days, truck pipeline - truck units in stock which is stock level. I can give you a copy of my list (see Appendix 8). On my list we also have Trucks (RT & OK’d) per employee is something when the truck is finished it goes out on a quality check and they take it for a test drive and the hold up of the truck is used in this calculation: how many trucks are acceptable per employee. Our target is seven and we are only up to 5.5. We have a major problem in the factory. We implemented a new production system which comes from another company. Unfortunately the people who implemented the system, which started in November, are not handling the system in a better way. There are some problems there. The system itself is one of the problems, we also have a problem with receiving parts from Sweden. This is because of the system, when we ask for parts from Sweden through the system, a model in the system which takes care of the planning of the parts is not working properly. The system is supposed to sense itself when new parts need to be ordered, and this is where it is not working. So we know what the problem is and we are attacking it.

Q: But you have a three month lead time to get the parts, so I guess if something goes wrong it is going to be hard to get the part quickly?

A: Yes, of course. You cannot blame everything on the system and we do have some problems in Sweden too, but we have contributed to make it worse when we have this problem here in Australia.

Q: Who implemented the new production system?

A: It was developed and implemented by computer whizzes, and the product and development manager involved who was the project leader. Unfortunately there were other things happening in the factory which are continuing to make things difficult. So what happened, when you have the truck out on the production line, there might be a cap that we cannot put on the truck, so the truck continues to the next phase in the production line without the cap. Next there might be a wheel missing in one of the phases, so when the truck finishes out of production it is uncompleted. So then we have a big rectification, or hospital area as we call it, where the truck gets completed when the parts are received.

Q: With the production system, do you know now what you could have to avoid all those problems?

A: When things go wrong everybody has got solutions. What is important is instead to have contingency plans just in case something goes wrong. That is my critique of the production system. When we put the new system in practice we should never have stopped the old system. We should have run them parallel until we are 100% sure that the new system is running fine.

Q: Except for not having a contingency plan, what went wrong with the production system? Were there too many computer analysts and too few people from the factory?

A: To me there were too many people who were not trained for handling the new system. I do not know whether to blame the computer guys or the production guys or the guys who handle the production in that particular area. I can not give you an answer to that. But I think it was a lack of training or lack of understanding of the new production system. I believe that when you implement a new system you need to make sure that all your resources are up and running correct. In this particular case we did not have the human resources to give the system the support it needed.
Q: A common problem when implementing a system is that the computer whiz that implements the system doesn't know anything about accounting, if it is an accounting system. Do you think that might have been the case here?
A: We did not create the conditions to make the system perform to a different contingency. We did not create a simulation for an emergency situation. How could we handle this situation if this or that happens. There was a lot of time pressure to get the system up and running because we delayed the initiation of the project 2 or 3 times to start in June 1996 and it was delayed until November 1996. Do you know what is important with these things, when you go through a project and decide a date you need to be very realistic to avoid misunderstanding things, people being rushed and are no able to cope with the situation. Now we are coping with things and we should be able to get on top of things at the beginning of May, but we had to go through these hassels.
E: Yes, we can see that with the KPIs for the last 6 months.

PART 3: FROM BEANCOUNTERS TO ‘NEW MANAGEMENT ACCOUNTANTS’
Q: Are you familiar with the expression beancounter?
A: Yes. To me the management accountant is someone who has a more proactive view on different accounting areas. Obviously the numbers give me an indication, but the management accountant now gets involved with solutions whereas before the management accountant provided information for somebody else who made decisions and provided solutions. So from that point of view I guess management accountants today have more thinking involved whereas before you used to only keep track of the numbers.
Q: So your boss expects you to come up with solutions not only give him information?
A: When somebody asks for any issue I always bring in my own thoughts. So we do more thinking, provide a more analytical view on different issues, whereas before you used to sit down and look at the figures and provide them to somebody else.
Q: So the role of the management accountant has definitely changed because now they have to be more analytical, come up with solutions and not only provide the statements.
A: We should not expect that things just happen, we should try and prevent them from happening. And to prevent that is to look in an analytical way.
Q: Do you only look at financial figures, or do you also look at the non-financial figures.
A: I look at both. I look at humans, people involved in those figures, activities, any influencing external factors, why did this happen, why has this truck a low margin when we expected a high margin is it because the truck has been poorly costed at the factory or we have higher costs involved in transport or we have a third party involved that we did not expect to be involved. I always ask questions and provide possible solutions. From my position I work pretty close with marketing issues, the marketing managers and the marketing strategies, and I provide my view on why market share is so low, why we are down compared to last year. Last year we had a market-share of 12.6%, now we are down to 10%. I get involved with marketing, and I like to explain things and talk to the marketing manager, so management accounting today is not only to look through figures we should also provide input to the management team.
PART 4: FACTORY VS ADMINISTRATION LOCATION
Q: Why is the factory up in Brisbane when you have the administration in Sydney?
A: I don't see any benefits with physically having the factory separated from the head office. The company have been trying to solve that situation a few times.
Q: How did the factory end up in Brisbane?
A: I guess because all the truck manufacturers are in Brisbane, such as International and Kenworth. And at some stage when Volvo wanted to put up an assembly plan they looked at that and they forgot about having the whole business located in the same location. Volvo used to be a big company including car, bus and truck. When the company split up into Car and Truck, we should have moved up to the factory. But this did not happen, which was a decision from very high up. I criticise that.
Q: How often to you go to the factory? You seem to be pretty involved with the factory?
A: I do not go very often, maybe once every two months. People like the sales manager sometimes goes 3 times a week to Brisbane which is ridiculous. Obviously that involves some expenses which could have been saved for the company.

PART 5: ACCOUNTING INFORMATION SYSTEMS
Q: I was just wondering a few things about the accounting information system that you are using now: how long have you been using that system?
A: We are currently using a JDE system which is a project which we started using in 1994 to replace another old system. We intend to use JDE until the end of 1998 when we will start using a new accounting software called SAP. It is an accounting or business software that will be used by Volvo worldwide. In other words Volvo is going to unify its accounting system worldwide. It will be used in Sweden and all the other countries at the same time in 1998. We just had a meeting this morning about it. The aim is to get the first unit or company to have the system up and running before the end of 1998. We are looking at 60 companies within the Volvo Group to use the system before the end of 1998. Altogether there are approximately 300 companies in the Volvo Group worldwide.
Q: Do you have a steering committee setting up the new accounting system?
A: Yes, there is a steering committee which are Tim Taylor, myself, Tore, the financial controller from the factory etc., in other words everyone that is a user of the system will be involved, because you need to have the feedback from the users of the system.
Q: That might be a reason why the production system had some problems?
A: Yes, they brought in this new production system in the factory, and they forgot the invoicing. The information coming out of the invoicing is vital. For instance for me when I work with profit analysis I am missing some information that I had before when we used the old system.
Q: Well, that makes you a user of the production system. So why were you not involved in the implementation of the production system?
A: I should have. I have already complained.

PART 6: PERFORMANCE EVALUATION
Q: Have you heard about the balanced scorecard?
A: Yes, I think we looked at the balanced scorecard when I studied TQM.
Q: Balanced scorecard is looking at the company from a long-term basis and it includes non-financial measures.
A: In the corporate business plan we have non-figure KPIs such as customer satisfaction, brand image, etc. With the brand image it is very important for Volvo to keep the image up, so we follow it up and set up some objectives that goes right up to year 2000. How do we measure our customer satisfaction? We need objectives to prove that customers are happy. A way to improve customer satisfaction would be to put the level of all stakes in. For instance, if I want to take 100 trucks per week and keep them for the next 6 months, my customers are happy with my truck and they tell other customers that Volvo trucks are good. Even if competitors bring prices down, we hope that our customer are happy and loyal to us even if we keep the original price.

Q: What would happen if you followed your competitors and lowered the price? By lowering the price you might gain a few more customers or at least keep all the present customers, which will be good long-term. By not lowering the price I guess you guarantee a higher short-term profit which encourages short-term planning.
A: You might be right, in this particular example it was very short-term. I think Volvo’s vision is clear that we create value, this means that we are not going to follow our competitors and bring prices down. We want to maintain our brand image with as high value as possible. We might loose a little bit of market share when the competitors drop their prices, and they take some of our market share. This might be a temporary situation and we might recover our market share later on even stronger because the customer who did not buy our truck today might realise tomorrow that he/she will pay a little bit more to buy a truck with quality and value.

Q: Who in the company decides about the market strategy?
A: This is done in Sweden, Volvo Truck operation. About the market in Australia it is the management team who make the decisions. The finance department and myself for example bring our ideas through Tore.

Q: How important are non-financial figures to a management accountant?
A: They make you think.

Q: Do you believe this is one of the new roles of the management accountant, to think about non-financial measures?
A: Yes, for instance with customer satisfaction we have BBPS (Best Business Partners Survey) where we actually survey all the customers. One index might be customers complaining of the number of trucks that broke down on the road. We provide our feedback or input to the team manager. The managing director has got me next to his office because he walks in here every five minutes and talks to me.

Q: Let’s talk about other kinds of performance evaluation. Are you involved in the process of the financial statements?
A: That is the finance department. The only process I get involved in is at the month end when we look at the final costs and sales. An invoice is created, which is generated through sales itself, and I get involved to check whether that sale is correct.

Q: With the month end reports that you prepare, do you give the information as a feedback to for example the factory?
A: Yes, I go back to the factory and inquire why the costs are so low for example.

Q: How often do you give feedback to the factory.
A: That all depends how often things are wrong. If I am happy with the figures there is no need to go back to the factory.

Q: So you don’t have monthly meetings that you attend at the factory.
A: No, but Tore for instance goes to the meetings with the factory, for example the management meeting. The management meeting is the managing director, the division managers and they talk about this. So if I have something to say I go to Tore and he forwards this for me.

Q: From who do the people on the factory floor get the feedback from, the financial controller?
A: Yes, he is the link between us and the factory.

PART 7: BUDGETING PROCEDURES
Q: The last part is about the budgeting procedures. I know you set the budget for Volvo Trucks. How do you come up with the budget figures, is that through a budget meeting?
A: Yes.

Q: How often do you have the budget meetings?
A: Once a year, and we normally start preparing the budget 3 months before year-end. In September/October we sit down with your people and ask for information to be included in the budget. The general direction of the budget comes from Jason, who we have meetings with.

Q: Who are involved in the meetings?
A: All the truck meetings for product service and parts I get involved in. We also have the manager, the managing director, myself because I present it together with the manager, Tore and Jason. Now we also have a long-range plan which is valid for 3-4 years. So now in 1997 we got 1997, 1988, 1999 budget already presented. The long-range plan is a forecast, but then in 1988 we do the budget again for that year and then we roll the long-range plan. This gives you more flexibility in terms of your objective goals.

Q: I think this is all. I do, however, have a few gaps I would like to fill in, we still have a few minutes. What kind of academic education do you have?
A: I have done a postgraduate coarse in the school of business and administration. I majored in finance from Chili.

Q: Is accounting a part of finance in Chili?
A: Yes.

Q: Have you studied anything else but finance, business and accounting?
A: Yes, I did a few subjects in marketing, and I also did a marketing course here at Volvo, TQM at the Graduate School of Management, and I have also upgraded my accounting standards. I am not a ASCPA, nor Chartered Accountant, just a management accountant.

Q: Have you every work on a non-accounting position.
A: Back in Chili I was an administrator for a company, administration manager, and I was in charge of payroll, office administration duties. Back then I was not involved in accounting, I was studying accounting part-time at the time being.

E: Thank you.

Interview 3: Ted Holland
Q: Tell me a little bit about your position at Volvo?
A: I look after the financial reports at Volvo Australia. The reporting within Volvo is world-wide the same. In a way we are reporting exactly to their requirements. The only deviation is when we have to conform with the Australian requirements. And, of course, even Sweden has to conform to the US GAAP as well. We also have to do
supplementary balance sheet information and income statements, fair value, capitalisation of interest, pension and so on. We are forced to do some of that at year end. From a cultural point of view, we are basically Swedish with a slight local justification.

Q: I found out in my studies, that when two countries like Sweden and Australia, which are very similar in many aspects, especially when it comes to people, we are very similar.

A: I just became Australian myself. I’m from UK originally. I came out here in the sixties with $20 in my pocket. It cost you nothing to come, the Australian government paid for it. You had to stay for two years, and after that they gave you your passport back. A lot of young people went back, but I did not. I stayed for 30 years before I decided to become an Australian. I just got my letter from the immigration the other day.

Q: Congratulations. So, have you done all your education in England?

A: Some of it. I actually studied cost accounting in Australia.

Q: What kind of qualifications do you have from back home?

A: A Bachelor of Arts degree. I did not do any serious accounting until I came to Australia.

Q: What was your major?

A: English literature. In Australia I studied with the Australian Society of Accountants back then. It was a CPA, but that has all changed since then.

Q: How long have you worked with accounting?

A: Since about 1965. 30 years. I just about know what a debit and a credit is now.

Q: Have you worked for Volvo since you first came to Australia.

A: No, first I worked for an American company with process control equipment, then a transport business and then Volvo in 1978.

Q: What was your position in Volvo when you first started?

A: My initial position was a assembly-controller, we had car and truck assembly. Cars were assembled in Victoria, at, what was then, the Nissan plant. That continued until 1988. The tariffs started to come down, because the government wanted to reduce the number of car manufacturers in Australia. The government wanted to bring it down to three manufacturers, Ford, GMH and Toyota. We were just a low volume manufacturer. John Button was the senator at the time. He’s actually written a couple of books.

Q: Let’s go back to what you’ve been doing at Volvo. You started off as an assembly controller.

A: Well, after a couple of months they split the car and truck assembly, so I stayed with the truck side until 1985 when I did my secretarial qualifications. Today I’m the company secretary for both companies. Most people in the finance department are dual, like Jason, Tim and myself.

Q: I’ve got your job description here. Is there anything you’d like to add to it.

A: Who gave you this one?

Q: Jason.

A: He’s a master of understatement. I’m supposed to report to Jason, who in turn reports to the general manager. I’ve been with this company for 20 years, and I’ve seen lots of expatriates come through as general managers. All the main people at Volvo are expatriate. The top management, two managing directors, the financial director which is Tore and the factory manager are all expatriates. I strongly believe there should be a few more locals at these positions.
Q: Do you think Volvo Australia could gain anything from doing that?
A: Definitely.
Q: Let’s look at your position within Volvo today. It says: superannuation, transfer pricing, tax, treasury function.
A: I would like to emphasise that I’ve got nothing against Swedes, but it would be advantageous sometimes to give locals top management positions. So far they’ve never had a local at the most senior position.
Q: Can you see it happening in the future?
A: I would hope it would. In the immediate future I would intend to say no, but within five years I think I would. I think Volvo Sweden uses Volvo Australia as a training ground for the younger managers. The very first manager at the factory was Karl Trogen, who is now the president of Volvo Truck operation. Karl was good for us. But it is a Swede followed by a Swede, followed by a Swede, followed by a Swede, etc. I would say that Americans tend to vary, lets say 50 - 50, whereas Sweden is a bit more extreme.

PART 2: COST ACCOUNTING
Q: Have you heard about Activity-Based Costing?
A: Yes, of course. But we use absorption costing here, which is the same as the manufacturing companies in Sweden do. That’s what we generally apply throughout the operation.
Q: Do you think ABC might be something for Volvo one day? Do you think it’s a more accurate costing system?
A: I haven’t really given it much thought.
Q: Where did you first hear about it.
A: I did a course for the CPA years ago, so I might be a little bit out of date when it comes to cost accounting. I concentrate more on superannuation, taxation. I might be to your advantage for you to go to the assembly operation in Wacol and talk to people who actually are involved in that.
Q: I guess it’s all about money. How much do you know about Japanese management accounting. Have you heard about JIT, Target costing, Kaizen costing, TQM.
A: JIT we’re a believer of that. We carry too much stock You might be interested in this, I did a comparison between Kenworth, International, Mercedes, Volvo and Scania using information from the database of the Australian Securities Commission. It is a statutory requirement that we have to give the ASC information. The company with the best balance sheet was Kenworth. The Swedish companies had balance sheets which carry much more inventory and receivables.
Q: Why do you think Swedish companies carry more stock than others?
A: I don’t know, it was a question I proposed to the board. An obvious conclusion, truck competitors - financial comparisons. It reads “Reviewing the attached financial comparisons the main thing that stands out, apart form the financial strength of International and Kenworth, is the much higher levels of inventories and receivables carried by Volvo”. Then I went through the equity and you can see that Kenworth has almost 70 per cent of equity, compared to Volvo at 18 and Scania at 15 per cent. I did look at a lot of them but then I narrowed it down because some of them weren’t really in our field (see Appendix 10).
Q: Can you see an improvement of the high level of inventory in the future at Volvo?
A: Well, distance is always a problem. Lead time is up to three months. But we still have to bring it down considerably within the next few years. Maybe bring in more with airfreight, I don’t know.

Q: Are there any other way you could decrease the lead time?

A: I guess you could off-load at Fremantle and take it across by land instead.

Q: Could you decrease it by having more accurate forecasts?

A: Yes, we are installing a new production system which we hope will help us with that. We’ve taken the system that was in operation in Scotland, where Volvo has a big truck centre, and we’ve installed that and hopefully it will work. It is not working too good at the moment, but hopefully it will. We have problems with the new accounting system, the new warranty system, the new parts system. So I’ve heard about JIT. TQM we have implemented at the factory. In the factory we have quality certifications, that are the Australian standard called IS9001.

Q: What does the certification stand for?

A: It shows that your procedures have followed the requirements. We need to have quality procedures in place, updated and as efficient as expected.

PART 3: FROM BEANCOUNTERS TO ‘NEW MANAGEMENT ACCOUNTANTS’

Q: Let’s talk about the role of the management accountant. Do you think the role of the management accountant has changed since you worked with it more than 10 years ago?

A: Back then it was just number-crunching. It was just job costing, and we did not worry to much why we did it. We just functioned as ‘glorified clerks’ in those days. If we look at Jason, for example, he was employed 18 months ago partly because the average age was so high. The finance area had no young people, and we needed someone with computer knowledge, about spreadsheets and profit-analysis. Someone who could be analytical. Our factory has never been that profitable, really, it is too big for the bone, it needs volume to make profit. If look at the history of Wacol, for years we’ve had good utilisation. If we look at the factory in isolation since 1972, it would have had a huge loss.

Q: So why is Wacol still manufacturing trucks?

A: The question is up on the table right now, whether we should stop manufacturing or not. We’ve always been compared to Swedish factories, or Wacol I should say. It cost a lot of money to transfer the parts to Australia, and we need to be able to customise the trucks to customers requirements. The real answer to that is that it is nonsense, because these days you should be able to build a truck to the customers satisfaction anywhere in the world with the help of computer aided design. You know CAD/CAM. So, really, in the past I believe that was wrong, the technology. With today’s technology you can build a truck to the customers requirement anywhere where there’s production capabilities, whether America, Europe, Australia. I think we need the factory for other reasons, such as local adaptation. Then it is the marketing reason why you want the factory, because if you close the factory down Volvo will lose market share. Again, because it is customer adaptation. Nobody is prepared to test that. We currently have 12 per cent market share, and if we close it down it will probably drop down to 6 per cent, which would be disastrous. I believe that with tariff reduction and the amount of local technology and if we can come to term with the distance we should be able to make a pretty big profit in Australia. It takes a long time to get to the customers.
Q: When you say that no one is willing to take the risk to close the factory down, does that go for other truck manufacturers too.
A: Oh, yes. Mercedes has only assembly, so has Scania. They stopped manufacturing in Australia, and they took the risk to start local assembling the trucks here instead.
Q: Have they lost market share?
A: Well, it is a very recent event, but no, actually.
Q: How come Volvo would lose their market share and Mercedes didn’t.
A: I’m just saying that if local assembly is not a consideration, it ought to be. We’ve had one of these Volvo Truck management teams, it’s a bit like what you do, they take people from around Volvo Truck around the world and give them projects to do. And one of the projects 2-3 years ago was Wacol, the future of Wacol. The conclusion was that provided that Wacol had the capacity, provided they could build to standard times, at the present efficiency and provided the level of tariff would go down, Wacol could continue to production. It would be very bad PR if we closed it down, because we’re talking about 200 people’s jobs.
Q: Do not Australians think it good to buy trucks manufactured locally?
A: Well, they know it is 70 per cent Swedish anyway.
Q: Let’s talk about the plant being in Brisbane, administration in Sydney and cars used to be in Victoria. Is it really beneficial to have everything spread out?
A: Yes, I know what you mean. And the main markets are actually in NSW and Victoria. The reason was, as I understand it, back in 1972 the state government offered very good deals, lease deals, to bring industry into Brisbane. So we got it. We actually own the buildings, but not the land.

PART 4: FACTORY VS ADMINISTRATION LOCATION
Q: Has Volvo thought about moving the factory to NSW?
A: Yes we have in fact. A few years ago we considered moving it to Minto, that’s where our parts distribution is. Way outside Sydney near Campbelltown. At that stage, there was a lot of land available around Minto, but in the end it was far too expensive.
Q: I can tell that these decisions are made on a pretty short-term basis, because if you look on a long-term basis, lets say 20 years, what do you think would be the most beneficial?
A: Volvo Australia has a relatively short-term vision.
Q: Yes, I have noticed that. Most decisions are made on a short-term basis.
A: Volvo talks about a long-range plan and that is 3 years instead of 10 or even 20 years. It depends, if you were making a major decision then you should really look long-term.
Q: Do you know how it is done in Sweden, is the long-range plan in Sweden 3 years too?
A: At one stage we thought about consolidating administration with distribution in 1993. We even picked out a site in Homebush Bay and we were out on the market with this site here in Chatswood and the Minto site in Campeltown, with the intention of consolidating everything to Homebush Bay and thereby only have two locations, Homebush Bay and Brisbane. We could not sell the parts operation, but we sold this building since 1993 we have had a lease-back situation. We still own Minto because we could not sell it. It is a fairly run down facility and it is a pretty depressed area in terms of investment. Campbeltown is supposed to be a growth area but it has not grown as much as the government expected. So, again parts had to stay in Minto,
and administration is now leasing the building in Chatswood. This is the situation today, we are still in the same areas but own one building less.
Q: So you thought about moving the factory down to have it together with distribution?
A: Yes, at one stage. We did decide it was going to be too expensive.

PART 5: ACCOUNTING INFORMATION SYSTEMS
Q: Do you know when the first accounting information system was implemented?
A: I think it was in the early 80s because I remember I was in the city office and they were installing a system called JAFS. Volvo automated before then. I thought back then I could do anything I wanted to do with JAFS. I suppose it was computerised when I came to the company in 1978. It’s accounting system was awful, and they recognised that in the early 80s because we moved out from the city office into this building in 1985.
Q: Were you involved in the implementation of the accounting software that you use now?
A: Yes, I was on the project team. We had a project leader which was Rolf Backström which was in Tore’s position at the time. No relation between Tore and Rolf, Rolf was Swedish. Anyway, Rolf was the project leader/the project manager, then we had segments managers, such as accounts payable, accounts receivable etc., about 6 of those on the committee.
Q: Out of those people on the committee, how many were accountants and how many were computer analysts?
A: We had one person who was an expert on systems that was alleged to find a suitable accounting system. This one person dealt with everything that had to do with programming, which was far too much work for one person.
Q: Was it a smooth implementation of the accounting information system?
A: No. This is going back before the time of Jason and all the other young ones. People on the team really wanted another system, but it was exactly the same system that replaced the old one.
Q: So why did you replace it at all.
A: Exactly, but it did give us more control, better reporting. The users, accounts receivable, accountants payable etc., they were so fixed in their ways so they were designing it to be a duplication of what we were replacing. They weren’t looking at any advantages that could be pulled out of the new system. We had consultants helping us too, but they were used more to fall back upon when we needed help.
Q: Do you think internal computer education would have helped making the implementation smoother?
A: We did that too, we had them on an education system to learn the new system, and they had done courses too. But it was when it came down to starting to use the new system that the problems occurred. Of course there were problems with the system too. But the screen did not appear as it did before. Even though we had gone through it for many months, on the date we said there is your system. They were very lost with the new system. This is when we realised we had to do something about the financial organisation.
Q: When was this?
A: Back in September 1993 when we decided to go ahead, we had been evaluating it for some months prior to that. I think it was a culture shock, going from one system
to another. We had very little turnover in the finance area, so everybody became rather comfortable with the old system.

Q: So if you were going to do the same thing again today, what would you do differently?
A: We are going to do the same thing again. I think today we have a better quality of staff, you know we have Jason, Tim and a few others that are new in the organisation. This is new blood for the organisation, they have got energy, they are not resistant to change. When you don't have a lot of turnover you don't get new ideas coming in. That is why the new system was redesigned along the lines of the old one, JAFS.

Q: What is the name of the new system?
A: JDE (JD Edwards). Another thing with Volvo is that they have never had, and they still haven't, a common financial computer system.

Q: Yes, Jason mentioned something about that.
Q: But we all went our own way back in 1992 when we decided to go for this new software system. Nobody said anything in Sweden such as “go ahead and use this, we recommend you use this one”. That is why we did our own thing, we evaluated various software packaged and we chose JDE.

Q: Do you think you might have to change again to have one common system throughout Volvo.
A: Yes, we are changing again. It looks like its going to be SAP for the Group, not just Volvo Australia. That will be properly start happening next year, with the intention of getting it started January 1999. But today, we have a more progressive finance organisation. For example, we have had a massive explosion in PCs. There is an incredible amount of money that we have invested in technology. As a consequence, we have reduced the department by three people because of computer systems. We also have a few problems with the new system. I mean, change is good provided you can work with it effectively. I would say that the next transition from JDE to SAP, because we’re going from a package to a package for the group, as before it was from a system to a package, hopefully will be a lot smoother. Because the level of expertise in the finance area has been great.

Q: When looking at the finance department, would you say the people in the department play an active role in the development of information systems.
A: No, before it was not. Now, it is more active than before.

PART 6: PERFORMANCE EVALUATION

Q: What was the role of financial versus non-financial information in the past?
A: In the past it was always a comparison against the budget. In fact, today in the Volvo system you still compare against the budget. In the past it was purely financial. Today there are many more indicators being used. Jason came up with a whole series of KPIs in conjunction with Sweden.

Q: Are you involved with KPIs?
A: Not really. I get the reports each month. The reports we get today, I think, are a lot more meaningful for management than they used to be. Today, for example, we see in the reports: moving 12 month average, market shares, and in fact the projections whether they point in the right way. As you can see not all of them are moving in the right direction, except for operating expenses. There are some basic ones that you want to see anyway such as operating expenses. These are things you never saw a few years ago up until the advent of the PC in the management accounting area.
Q: If you look at your position now, have you noticed any changes in terms of financial versus non-financial information? Has your job changed at all?
A: The treatment by the tax authority has changed. We had a tax audit five years ago, all they were concerned about was getting printouts of the accounts for fringe benefit tax purposes. I'm just amazed with the changes, because this time they came in and the very first thing they asked to see was the sealed records. Every important company transaction has a seal on it. So they can go in there and see what transactions the company has been involved with. Secondly, they asked for minutes from director meetings.
Q: That's very non-financial.
A: This is now a week into the audit, and they have not asked to see one account. They call it tax strategy review these days, instead of an audit. So, the emphasis has changed totally. One of the main thrusts, however, is on transfer pricing, of course, as you know it is a very controversial subject. Now you have to gear up to handle the intrusive questions of the government departments, because now they are getting University trained people. I think the main change within my area has been the increase in regulations, for example in superannuation and fringe benefit tax. Being a company secretary, you deal with the regulations. On the one hand you deal with corporate law certification, which ultimately leads to that you don't have to keep as many registers as you used to. On the other hand you see tax requirements, superannuation requirements and so on. So I think the management accounting function in this country is considered to be unimportant. For example, they would not report cost accounting in the factory. About six years ago cost accounting started to be a function. We were doing cost accounting before then, but there was no actual skill in that area. Fortunately, that has all changed now. The organisation realised that for this kind of operation we needed an experienced financial manager to oversee KPIs and so on.
Q: So even though you have a cost accountant here, you believe you need one at the factory as well?
A: The cost accountant, which was me to start with, after that the organisation made me administration manager which was supposed to have responsibility over the factory and I oversaw what was going on up there.
Q: So you were located here?
A: And then I traveled two days a month up to Wacol. Sometime for a week. It was a bit negligent, because back then no one was really looking at the reasons why the costs occurred. Today, this has been put into place, we have Jason for example who is involved in the management accounting part of the company. And he is extremely busy too, and he collects information about the operation for Singapore too, and reports to Sweden. So, he's sort of got two masters to answer to, as well as the local ones. So there is a lot of emphasis placed on the importance of the role of the management accountant today.
Q: What do you think about the change in education today. I know from experience that I study a lot of non-financial accounting issues at University, whereas the generation before me probably did purely financial accounting issues.
A: Yes, I think graduates are going to come out from University a little more practical today. When I look at the tax side, the graduates used to know textbook stuff, but now they come out a lot more practical. I think it is a really good idea to do some work experience as part of your degree. We have one guy here doing work experience at the information technology department, and he does information
technology at University. He has turned into an Internet expert. He has been here for one semester and he goes back to University next semester, and he has been very, very good.

Q: Is he Swedish?
A: No, he is Australian.

Q: Did he apply for it himself?
A: I think the information manager was approached by the University. I think it has been very successful. I think it would be good to see something similar within the management accounting area, maybe not for a whole semester, but maybe for part of a semester. I believe most graduates will have to be re-educated once they finish anyway to suit the company.

Q: Thank you very much for taking you time with me.
A: I’ll give you a photocopy of the balance sheet for Volvo Australia so you can see the figures for our inventory level that we talked about. As you can see, our inventory has decreased from 72 million dollars to 58 million dollars since last year (Appendix 11). The question I put forward to the management is why do we need to carry stock when Kenworth are so consistent with low inventory.

Q: Thank you.

Interview 4: Kerrie Jackson

Q: I have got your job description in front of me and you are the assistant to Tore, the director of finance and administration. Have you had any other positions at Volvo?
A: My role changes a lot, because as you know we have had ex-patriots that come out, and they change every three to five years, so it is like working with a new job with each person, because each of them has a different way of doing things. Even though the job description is the same, it does change a lot because of the different ex-pats that come out here and they have different ways of doing things. For example, Tore is a lot different to the one before him.

Q: Yes, I have heard about the two Backströms. What would your job description be?
A: It is a support-role, mostly for Tore. I also do the administration with the credit-card companies, fuel-cards. I lodge the VAT, the value-added tax, back to Sweden to claim the money back. That is basically it, as I said it is a support-role. I put together and correlate the board-reports from our board-directors meetings of both the car company and the truck company.

Q: What was your first position within this company?
A: It was a temporary position actually. I worked with debtors, reconciling accounts. At that stage we had some retail branches that were closing, which have now reopened. But they were closing then, so I came in to reconcile those accounts and finish them off.

Q: So you have always been working for the finance department?
A: Yes.

Q: What is your education?
A: I finished year ten, and then I went on and did a business course.

Q: Have you ever worked for another company than Volvo?
A: Prior to getting married, I worked within the sales areas with a office equipment company.

Q: Do you believe the job you used to have, doing reconciliations, has changed since you worked with it?
A: Yes, it has. It has become more computerised, and also I don’t do as many reconciliations as I used to do in those days. In those days we had a punch-room, I think we called it, and we had all our journals, and they we had to go downstairs to get them cleared. Whereas today in the accounting role, we do everything ourselves, and the journals are cleared here.

Q: How do you think the department has changed during those 20 years you have been within the company?
A: We had a lot more people in those days. We had about 26 people, compared to 14 today. That is quite a reduction. All the invoices for cars, to take an example, were all typed, and then processed through a manual sales journal for instance. But now it is all computer generated.

Q: Were most of the people back then working involved in financial accounting.
A: Yes, they were doing a range of things, everything from inter-company to stock-control, invoices.

Q: Did you have anyone doing the forecasts for the company?
A: Yes, we did. Tim Taylor’s predecessor, was responsible for doing the budgeting and the forecasting.

Q: How was that done before you had computers?
A: They used a lot of spreadsheets, and it is certainly a lot more streamlined now.

Q: I know you do annual budgets, and once a year you update all the costs.
A: Yes, back in those days it used to take a long time to do the budget, and, of course, it all had to be typed and special forms sent out from Sweden.

Q: Is it the same now, do Sweden give you instructions on how to do the budget?
A: Yes, they do. And the budget is done in the VEGA system, which Tim is responsible for. I think all Volvo companies use VEGA. And then Jason is responsible for bringing it together and report back to Sweden.

Q: So back in those days Volvo used to send you a form and instruct you to fill it in?
A: Yes, that is correct. A lot of work.

Q: Out of those 26 people, how many people were involved in financial accounting and how many were involved in management accounting?
A: It is a bit hard to differentiate because one person was responsible for controlling the whole lot, and he would be responsible for doing it all, and he just got people to help him with pits and pieces. It was not as separated as it is now, with Tim being responsible for financials and Jason being responsible for the management accounting side. It was all tied in together.

PART 2: COST ACCOUNTING
Q: Cost accounting has been around for a long time. Have you noticed any changed on the cost accounting side.
A: Ted will probably be able to fill you in on that, he used to be the cost accountant. Apart from this I do not know much about cost accounting, because we do not have a cost accountant as such. It is more combined with management accounting in the position Jason has.

Q: Have you ever heard about activity-base costing, Kaizen costing and so on?
A: No.

PART 3: FROM BEANCOUNTERS TO ‘NEW MANAGEMENT ACCOUNTANTS’
Q: Are you familiar with the expression beancounter?
A: They call us that here in this department, I mean, the rest of the company.
Q: Would you say this is true for accountants today?
A: I think sales people call us this more than anyone else. I think it is just a
terminology that got stuck. I do not think we are bean counters, I think it is much
wider.
Q: You do get accountants today that claim they are still bean counters, but they use
their computer as a tool. Others say accountants are much too analytical now to be
called bean counters. Do you consider yourself being an accountant?
A: No, not at all.
Q: How would you explain the accountants in your department?
A: They’re certainly more than bean counters. It is like you said, there is all this
analytical work that has to be done and there is so much more focus on what they do
and what happens around them, as opposed to as I remember it in the past that they
did their little bit and then pass it on.
Q: When did this change, and why do you think it changed?
A: I think it changed because we have got a smaller group of people. That people
have been able to diversify a lot more and take on more responsibility. And
personally I think this is one of the problems today, we need to see the wider picture,
not just our little task.
Q: Do you think it has anything to do with that companies today need to have a
broader picture to survive out there on the market? We need to look at and
concentrate on non-financial figures, such as customer satisfaction.
A: Like with the KPIs, before, no one had ever heard about them.
Q: Do you know how Volvo used to find out about customer satisfaction before.
A: I do not think the finance department looked at customer satisfaction as much,
because we provided a service to the other areas, such as the car and the truck side
and areas like that. So they were really our customers, but I do not think we ever
measured it. Whereas today, we tend to measure things a lot more, recently we
handed out a survey to the car and the truck area, asking how they see our
performance, since we provide a service to them. So I think in that way we are
measuring our customer satisfaction on what we are doing. I do not think this was
ever done in the past, not to my knowledge at least.
Q: Are you involved in that today? The survey? Communicating with other
departments?
A: Yes, I talk to them a lot. And Tore is very focused that we must provide a very
good service. An analogy he puts forward to me is that, imagine you went into a shop
and they did not give you good service would you go back. So if car and truck come
to us, and we do not provide good financial service, then why should they come back
to us.
Q: Do you think this is a trend in society today, or a direct influence of the managing
directors?
A: I think every where is becoming more customer focused. But definitely with Tore,
he says it to me over and over again. “We must provide a good service to our
customers”. He is really great.
Q: In the old days, when you prepared the accounts, who did you give them to?
A: I did not really prepare the accounts, that was the chief accountants job. I basically
just typed them up and then correlated them and put them together for the board of
directors. Until, for instance, 1996 we had a local board of directors. Today it is
Swedish.
Q: So they come out here?
A: In the car company, rather than in the truck company, on the board we have Anders Levin, who is the managing director of Volvo Truck Australia, and we have two people from Sweden, one is the chief financial officer and the other is in charge of Volvo Truck International. They are both over in Sweden. And then we have another Swedish guy from Singapore who is on our board too. So we do not have any local board-members any more.
Q: Do you see this as an disadvantage?
A: It seems to work a lot better with only having the ex-pats and the Swedish directors. They are very focused, they know the product very well, they know what Sweden wants.
Q: You said that Tore’s position changes every two to three years. Do you think this position would be better off with a local doing it.
A: He knows what they want, and we are driven by Sweden, I mean Volvo in Sweden is our parent anyway. Maybe in years to come we might have a local managing director for truck or car, or even finance. For the greater part of my time here we have always had ex-pats, prior to Rolf Backström though, who did have an Australian financial controller.
Q: Have you noticed any difference, how the Australian financial controller did things, compared to Swedish or Finnish people?
A: They manage the department a lot better. But then again, having said that, Tore’s predecessor worked very differently. So I guess it is more in the personality. Finnish people are more extroverted. Swedish people are very nice, but my experience is that they do not like confrontation.

PART 4: FACTORY VS ADMINISTRATION LOCATION
Q: Can you tell me a little bit about the location of the factory, distribution and administration. How was before and how is it now?
A: We have always had the factory at Wacol, and I joined out in Minto, where was where accounts and sales and so forth were. But we also had another office at Moorebank, which closed down. And then what they did, they took one floor at the TNG building in the city where they used to have finance after Minto. We had about 40 people located in the city, which was sort of the sales, marketing people for truck and car. And the managing directors were located their as well.
Q: When did you move out here?
A: We moved out here 10 years ago.
Q: You are the first I’ve asked that question.
A: We moved here 12 years ago last October, and that is when they closed down the city office, and everybody from the city came here.
Q: Do you know why the factory is up in Brisbane whereas everything else is down here?
A: You mean that it seems so spread out? I don’t know why the factory is in Wacol, but with Minto distribution center and us here is quiet a distance. It is an hour and a half drive. So we are still segregated. About six years ago they looked at selling this place and getting rid of Minto and combine those two together, and then that just did not eventuate.
Q: Do you find that having the factory up in Wacol, and administration and finance here in Sydney, has it caused any problems?
A: I don’t think it does. I think it only means a lot of plane-trips.
Q: Do you know if they’ve thought about moving the factory down here?
A: No, no idea.

PART 5: ACCOUNTING INFORMATION SYSTEMS
Q: Were you involved at all when they implemented the new accounting information systems?
A: We’ve only had PCs here for a few years, that is when we hooked up to the mainframe. They installed the first computer system when I was at Minto, and that brought about a lot of change. Prior to that, charted accounting wasn’t even on computer.
Q: Do you think computerisation has been a reason for the reduction in staff?
A: Yes.
Q: Were you involved at all when they chose what accounting software package to use?
A: No.

PART 6: PERFORMANCE EVALUATION
Q: The next section will have a lot to do with financial versus non-financial information. Have you heard about the balanced scorecard?
A: No.
Q: KPIs are part of the balanced scorecard. Have you heard about total quality management?
A: Yes, we had a person responsible for quality, up until recently. And he was involved with total quality management and to get the creditation of it.
Q: Was he in the factory, or here?
A: He was here.
Q: How come he’s not here anymore?
A: We went through some restructuring just recently.
Q: So who is doing his job now?
A: I don’t know who is doing total quality. I don’t know what’s going to happen now.
Q: Was that person a part of the accounting department?
A: No. He reported directly to Anders Levin, and he worked only with quality, to bring everything into total quality. That we all have the same goals, and procedures, for instance, that they were all formulated in the same way, instead of this bit being done this way, and this being done that way.
Q: With the employee information sheet that Jason puts up, are you involved in that at all?
A: No, not really. I help him to put them up. That’s a fairly recent thing, and it is really fabulous. Actually, I had a couple of calls from the Minto distribution from the warehouse, saying that over all the years that people have been here they have never been able to see that type of thing. So now, at least all the employees know how the company’s going.
Q: What information on the information sheet do you think people look at the most?
A: I think the bottom line is, whether we have made a profit or loss. That is what people seem to talk about.
Q: Do people wish that you were your own company, and not owned by a parent company in Sweden, so you could keep Volvo’s profit within Australia?
A: No, I’ve never heard that. They’re interested in sales volume.
Q: Do you think information like this works as an incentive for people?
A: I think they feel like they are more informed what’s going on, they’re not kept in the dark, they’re not there to just do their job and then say I’m just nobody and I’m doing my little job and I don’t see the broader spectrum. Whereas putting these on the board they can actually get to see where the company’s making a profit.

Q: So I guess that, for example, people in Minto feel a little bit closer to the finance department now, than they did say 10 years ago.
A: To an extent, I think they are.

Q: I can imagine that the accounting department is a lot closer to other departments today, for example with KPIs, you need to go and speak to other departments to find out.
A: Yes they do. It’s like with George Perez, he’s located within the Truck company, even though he works for finance, he is actually located downstairs next to Anders Levin. Now, the truck people can just go directly to him and say what is happening and they can work on the forecasts together and things like that. And we have a similar person within the car company. Her name is Kim Nicholson. That is a very recent appointment.

Q: Going back to the employee information sheet, do you think there is any information missing that could be of interest for you?
A: Do they show the sales per month on the sheet? That would be interesting, and whether we are ahead of budget and then of course the bottom line, whether we’ve made a profit or a loss.

Q: What about the survey you did about customer satisfaction? Could that be interesting for the rest of the company?
A: We did that, but only through the finance department.

Q: Do you think you will do another survey?
A: Yes, definitely. They’re talking about doing one every year, or quarterly.

Q: This is a fairly new thing to do for an accountant.
A: Yes, and I looked at it and said “I thought it was OK” you know. It wasn’t done on a individual person, just on the finance area, the service area and even the switchboard was done. The question was on how do they feel how we have performed. Some people came up with some really interesting views.

Q: What about quality improvements and costs, would that be interesting to know about? Or is it to go into too much detail? An example would be quality problems with engines in the past, which now has been fixed.
A: Yes, I think that would be interesting to know. We do have regular meetings with Tore where he tells us how the company’s going, or this is how our area is going, and then there’s also Anders Levin who has meetings over at the training room where he addresses everybody.

Q: How often do you have those meetings.
A: Quarterly, I think.

Q: Are the meetings for the whole company?
A: There is one for the truck side where he gives an update of how the company is going, and he’s there to answer any question that people want to put to him, which we all think is really good. By doing this we get an overview of what is happening within the company and you feel part of it then.

Q: Do you know if they’ve got the same think for the factory people?
A: Yes, I think it’s done. But I think the general manager of the factory does that. Anders Levin is the managing director of Volvo Truck Australia, encompassing the
factory as well. But I think he has, actually, gone up there to address the staff on a couple of occasion. In this way I think they deliver information to the staff so they do feel like they’re part of it.

Q: Do you think this has changed from how it used to be before?
A: We never used to have meetings like that. Before you had no idea what was going on, you just enjoyed a bit a work, and then you moved on. So it has definitely changed a lot. And I think this extends to me a lot personally because of Tore. He’s great.

PART 7: BUDGETING PROCEDURES

Q: Are you familiar with the words authoritarian versus participative budgeting procedures?
A: I would think that the authoritarian is “this is what we want”, and participative is “this is what we’re doing”.

Q: If you had those two terms on a continuum, where would you put Volvo?
A: Volvo senior management?
Q: I mean the budget that the finance department does.
A: I would say more participative, because they all get together and have lots of meetings and talk about it. I don’t think it’s ever been authoritarian. I think it is more participative because they’ve got Jason, George, Tore, Anders and the factory and they’re all talking about this is what we think we can do. And then they put this together based on their unanimous decision which they put forward to the board, the Swedish board of course.

Q: If you look at Volvo in Australia, would you say it is managed on numbers or on values.
A: I think they’re both very important. I mean you can’t continue without a profit, and I think values are very important too. We had the quality part, something we think is of value to the community and to our dealers I guess. But profit will have to be important as well.

Q: If Volvo in Australia has a bad year, you can always lean back on the parent company?
A: Yes, but ultimately you’ve got to stand on your own feet, I think. But I think the management is very good, and I have seen a lot of changes, and I think the changes have been for the better. I think they’re much more professional the way they do things now, our management team. And I think this has been brought about a lot by our senior management team here in this company. Even in the past what is near enough has been good enough, and they don’t accept that any more.

Q: Do you think that’s a trend all over the world?
A: I think so, we all have to be a lot more professional. People are a lot more trained these days, it doesn’t matter if you work at the switchboard or if you’re a cleaner, if you work for Volvo you should project a good image for the company you work for. I guess this is the way all over the world, isn’t it.

Q: I guess so.
A: And especially in Singapore, they’re very focused on customers. I thought so when I was there last year.

Q: Thank you, that’s all I had to talk to you about.
Interview 5: Tore Backström
(The interview was conducted in Swedish, but for the purpose of this thesis I have translated it to English)
Q: Where do you come from?
A: I come from Finland.
Q: Did you work for Volvo in Finland before you started here?
A: One of the places that I’ve worked for is Volvo Finland. I’ve been employed by Volvo since 2 May 1972. It will be 25 years next week.
Q: Have you ever worked for Volvo in Sweden.
A: No, I’ve never worked in Sweden. I’ve managed to avoid that. I’m quite happy about that.
Q: What level of formal education did you achieve?
A: I did a Bachelor of Accounting in Finland (en diplom ekonom), and then I did a Master of Business Administration at the Svenska Handelshögskolan in Helsinki. I also worked as an assistant at the Högskolan, and had my own company for seven years teaching people how to study for their exams.
Q: Have you ever worked for another company than Volvo?
A: I worked for SKF, Svenska Kullager Fabriken.
Q: That’s another Swedish company!
A: I’ve also worked on a bank for a little while, Merrita Bank in Helsinki.
Q: Tell me shortly where you have worked for Volvo?
A: I started off working for Volvo during my summer-vacation from University. I started at the ADB-department (automatic data processing). After that I think I worked with almost every position at the finance department that you can ever imagine, from book-keeping, accounts payable, accounts receivables, cashier, loans-department etc. At one stage I was a part of a long-term strategic plan, and I was sitting in a factory measuring how long time different things took to manufacture. This was December 1977. After this I became Chief Financial Controller of Volvo in Finland. I stayed at Volvo in Finland for nine years, and we worked as a retailer for Volvo cars, trucks, buses and all the different Volvo products you can imagine. We had no manufacturing, just retail. Then Volvo bought Leyland Buses, which is one of the core businesses in England. I went there as the only Volvo-employee in October 1986, to Leyland in England. I was there for one and a half years among 2000 British employees. This was a most intriguing experience. What we did was to change the whole organisational culture to something completely different. It ended up being a pure finance project, with the number of employees being cut from 2000 to 350. We ended up combining the bus section with the trucks section, and we ended up closing down three factories. So I’ve been through the British manufacturing industry in great detail. There weren’t many people left at the end, which was very interesting.
At the end of 1991 I went to Poland working with a huge project Volvo was conducting with trucks and buses. There were three of us running the project, one was responsible for the technical part, one for the legal documents and the third one for the accounting and finance side. We were negotiating with the Polish authorities for two and a half years to purchase a large government owned truck manufacturer. It ended up with Volvo starting its own manufacturing in Poland and our own finance company. I never lived in Poland, but I’ve probably been there 50 times. At the same time in 1992 I moved back to Finland, because the Finish market had reached its bottom, and there was a crises in Finland, we had lost 70 per cent of the market share for cars and we had a finance company that nearly went bankrupt. So I worked with
the finance company at the same time as we were retrenching people for the Volvo car company. It was a big mess that we had to sort out. At the same time we started a company which was the equivalent to Swedish Katema, called Aspikkio, which is a parent company for Volvo retailers. We owned about 40-45 per cent of all the retailers. At the time I was given a sum of money to purchase the retailers businesses, then change the CEO, get all debts sorted out with the banks and get the companies back on their feet. And I was the CEO for Aspikkio, at the same time as I had the finance company.

Q: And then you came to Australia?
A: Yes, that is right. I came here 1994 to see what we could do about the situation here at Volvo Australia.

Q: How long do you think you will stay here?
A: Until they transfer me somewhere else. I work for Volvo on a 3-year contract, but you usually stay until things have been done, so I will stay for at least another year until the end of 1998.

Q: And what will happen after Australia?
A: They will probably assign me another problem at another end of the world.

PART 2: COST ACCOUNTING

Q: I know you use absorption costing. Have you every heard about activity-based costing?
A: Yes, I’ve heard about it, and it seems to me that everybody defines it differently. That is one of the reasons why we are stuck with Volvo’s way of indoctrinating.

Q: Do you know if Volvo in Sweden uses activity-based costing?
A: Volvo has exactly the same cost accounting system all over the world. What we use here, is what Volvo uses at home in Swede. There is a huge project going on right now, where Volvo is trying to implement a common table of accounts around the world in every company. The aim is to consolidate everything within accounting.

Q: So it hasn’t been the same all over the world before?
A: Yes, it has been the same thing, but using different accounting systems all over the world. It has been a bit difficult to consolidate in the past because Volvo has been involved in so many different countries, involved in different kind of businesses, e.g. food distributor. But now when Volvo is concentrating on its core products, the way of thinking is a little bit different, and it is also easier to calculate all the direct costs the same way. The discussion about joining up with Renault started a discussion about how much of the guarantee goes into the purchase cost, what do you do with calculated interest, is it a part of cost of sales, and so on. To go back to cost accounting, we decide a normal volume for the factory which is based on previous years. In accordance with estimated normal volume you calculate the price of manufacturing each car.

Q: A lot of people argue that activity-based costing is the cost accounting system of the future with more accurate figures than absorption costing. What is your opinion?
A: There has been a lot of discussion about ABC during the last couple of years in great detail, and I can not see Volvo changing within the next couple of years. We use a lot of different overheads, and I find it hard to see how ABC can make much difference in terms of accurate figures, compared to absorption costing.

Q: By finding out every process in the company and calculating the cost of each process, surely it must show a more accurate figure?
A: Yes, but what happens every time you change your processes, it will be a very expensive exercise to use ABC.
Q: Yes, that is one of the main questions, is it worth the cost of implementing ABC.
A: I guess we could always make that analysis any time we want, without using it constantly. After all, we do live in a world of constant change, which makes this process pretty hard to implement. Personally, I find it very hard to see the advantage at large. Then again this is not my area of expertise. Where the large amounts of money is with capital investments for different products, this is a large part of the cost.
Q: Do you know what you should do, you should ask a few student to come up with an ABC solution for you, and if you like it you can start using it.
A: Yes, I might mention that to Janne Engström, my boss, at next weeks meeting.
Q: What do you know about Japanese management and Japanese management accounting, such as JIT, Target costing, Kaizen costing, TQM?
A: I have never worked for a Japanese company, so I don’t know if we use them or not.
Q: Many Western companies use, for example, JIT and TQM, but they originate from Japan.
A: I don’t think I have enough knowledge about it to give you an answer. But if you take TQM, it is a practice that we all try to achieve in our own different ways.
Q: If we take the example of JIT, a lot of companies are starting to realise the importance of having low inventory levels.
A: What is important is to look at the whole material-process and how much lead time we have to get the material from our suppliers. When you build a car or a truck there are different modules that you need to plan for, what is the lead time for the engine, what is the lead time for the axles. So you build up buffets for each module, and then the question is should you have your inventory here or somewhere else. Should we have inventory here in Australia, should we use seafreight or airfreight.
Q: Do you believe that the marketing department and the accounting department looks differently on inventory? The marketing department sees inventory as an asset, whereas the accounting department sees it as a liability.
A: Yes, I agree to a certain point, but I believe that each department needs to take care of its own profit center. Each profit center will take the interest rate of its own capital. The cost will always be there, and it is a part that we keep highlighted at all times. One example is the distribution cost for cars. Our goal is to establish what the cost is today, and how we can lower the cost after we have finished the ‘business process of re-engineering’.
Q: How often do you do a business process of re-engineering?
A: It varies. This is our way of looking at processes and defining the different parts of it, so I guess there is always a re-engineering process going on somewhere. I guess we do them as much as we can. So, yes, I am familiar with what you are saying, but we just use different names for it. We make sure that capital has an important part in this whole process.
Q: So capital is very important, quality is important..?
A: Yes, capital, quality, customer satisfaction are of great importance.

PART 3: FROM BEANCOUNTERS TO ‘NEW MANAGEMENT ACCOUNTANTS’
Q: With your education and experience, do you see yourself as an accountant?
A: I am much more business oriented. I like to see myself as someone who looks at how the company should work, strategically. I see myself as a businessman.

Q: If you were to study the accountants around you, do you think their role has changed much over the last 10 years?

A: Definitely. Computerisation is a large part. We’re talking about completely different people doing the job today compared to 10 years ago. Before accountants were people who were employed to get the numbers right, they were introverted and had no communication with other people and lived in a world on their own. It was horrible. When the budget was to be made, every change in it caused an extremely long processes to correct the whole budget. It was also a part of the company that had no communication with any other department, the numbers were a secret.

Q: How is it today?

A: It is completely different. Accountants are supposed to be more analytical, be able to use the new tools, be responsible for different profit centers, make decisions, and service the profit centers with material and know the different processes in the company in a different way than before. There are 17 people working for me right now, and there should be no more than 2-3 people left by the time I finish here.

Q: Really. How come?

A: A lot of people are still here doing the same thing they’ve always done. I want people who are extroverted. These people are waiting for someone to give them papers to work with. I want service-minded people. This is supposed to be a support-function. We used to have book-keepers sitting here with their nice figures, and they just couldn’t cope with the new technology. We need new people such as Jason and Tim who have a modern education, who know about computers and know how to be a business support. I want to get rid of all the traditional accountants, and bring in people who can communicate with other departments. I don’t want people who stay in the same position for 40 years, I want people that come here and work for 2-3 years, and then move on. I want a lot of turnover and rotation.

Q: How do you think the role of the accounting department has changed over the last 10 years, towards other departments?

A: The accounting department is a lot more active, not just a receiver of papers, but also a giver of papers and information. The department takes part in the decision-making process in a completely different way. The accounting department supports the other departments when they do their budget, they help them implementing new accounting systems to make it simple. The accounting department help out with technical dilemmas, analytical problems, help making simulation models.

Q: I like to compare the Western way of doing things with the Japanese. In a Japanese factory it is usually an engineer on the factory floor doing the budget, not some management accountant in a separate office, what is your opinion on this? They have management accounting, but not management accountants.

A: That is the process I believe we are heading for. That is exactly what we are about to do. I think we should teach the other departments as much as we can so they can do it on their own. We will need management accountants to look after the central reporting to the head-office, so we need a small coordinating function, before everything is automated and we are not needed any more. But we are not quite there yet.

Q: So you believe we are heading in that direction?

A: I don’t think, I know.
PART 4: FACTORY VS ADMINISTRATION LOCATION
Q: Why is the factory in Wacol, distribution in Minto and administration in Sydney?
A: I guess communication would be better if everything was in the same place. But I believe they serve completely different purposes. We have a manufacturing function, and a sales function. It doesn’t really matter where the factory is located. It doesn’t matter if we get our products from Belgium or from Wacol. In the end it doesn’t matter where we take them from. The cars come from Belgium and Holland.

PART 5: ACCOUNTING INFORMATION SYSTEMS
Q: Do you know how long the present accounting information system has been in use?
A: It was decided to start using it when I first came here in December 1994. There was a lot of discussion whether we should implement it or not, but I made the decision that it would either work or fail. You can never get it to work completely from the beginning anyway.

Q: Who was involved in the implementation of the accounting system? Accountants?
A: It was the accounting department, the information systems department and external consultants. The project leader was an external consultant.

Q: Do you believe accountants played an active role in the implementation?
A: No!

Q: Why not, and would it have been better if they had had it?
A: Yes, it would have been a lot better if they had been active, but at this stage we had a lot of old people in the department that refused to take responsibility, for them it was a lot easier to push the responsibility over to someone else.

Q: The consultants that were involved, did they have any accounting background?
A: Yes, it was Coopers & Lybrand who implemented a system they recommended, JD Edwards.

Q: Was there anything you could have done better, when you look back at the implementation?
A: I guess we should have been a bit more involved ourselves, and not relying on the consultants so much, so that we could go through our own process in the mean time.

Q: Have you heard about participatory design?
A: I don’t know exactly what it is, but from the meaning of the words I get some idea. I believe Volvo is definitely going towards participatory design, especially with the new accounting system SAP that we are about to implement soon. To make this work we need to built up the level of competence first of the people working for the accounting department.

Q: How would you do that, internal education?
A: Sack those who can’t do it and get competent people in. It sounds a bit drastic, but I don’t believe in a process of change where you don’t get new people in. I’ve worked that much with the processes of change, and made a lot mistakes when it comes to this. I don’t believe in re-educating people, it is better to find a more suitable position.

Q: Do you believe the management accountant of the future will have more knowledge about information systems?
A: Surely. And also business knowledge, they need to have a strategic way of thinking to get more involved in the different processes and decision-making.
PART 6: PERFORMANCE EVALUATION
Q: What is your opinion on non-financial information, such as KPIs? Is this something you started with recently?
A: We’ve been involved in customer satisfaction and dealer satisfaction for a long time, but they have not been put in every financial statement, they are separate from them.
Q: What about other KPIs?
A: Lead-times, all different types of lead-times. Lead-time from order to delivery, is a typical example. How long does it take before you get the truck you ordered? Delivery-position. If I promise you a truck on Monday, in how many cases can I keep my promise. If I deliver it on Tuesday it will be minus one day.
Q: Other KPIs?
A: Employee motivation in the whole company. The climate of the company. Environment is one of the cornerstones at Volvo, and we have environmental audits as a very important part. When go to the factory we measure the quality, the number of faults per vehicle. This is also a measure of effectiveness.
Q: When you do your forecasts and budgets, do you include non-financial KPIs?
A: Yes, in a way. They are included in the company’s goals.
Q: For how long have non-financial KPIs been included?
A: I guess we started measuring customer satisfaction about 12 years ago. But there is a bigger focus on it today.
Q: Why do you think it is more important today?
A: To begin with the customers are more demanding. Secondly, the employees are more demanding. Competition has increased.
Q: Jason showed me the employee information sheet, was this your idea from the beginning?
A: It was my idea to let the employees of the company know what we’re doing, and get some idea of what the financial side do.
Q: What has the response been?
A: I think people have a better understanding of what we do, and there is more goal congruence.
Q: Some people believe accounting information belongs in the accounting department?
A: My duty is to get different people at different levels to understand the meaning of the figures.
Q: I saw the list and there were about six different things mentioned: market share, profit etc. Have you thought about having a more detailed list with all the non-financial information too?
A: Employees get information from other directions too. If we do a survey about customer satisfaction there will be a separate information sheet going out about it from the customer relations department. We did a survey at our department not long ago about the opinion in the company about how the accounting department performs, the switchboard, the internal mail, our information systems department. We received a very good response, and then we summarised the information and sent it back to the other departments. We’re planning to repeat the survey every 3 or 4 months. Have we improved or are we getting worse?

PART 7: BUDGETING PROCEDURES
Q: Who gets involved in the budget?
A: I would say the whole company. It starts from the bottom to the top. This is a very important part of the business. Each department makes their own budget. First we have the central budget on how many cars we should sell, then the distribution department makes a distribution budget, the sales department makes a sales budget, etc. Lastly, every budget is put together to cover the whole company, and this is what Jason does. Then he distributes it back to each department, so each one of them know what do aim for each month. Lastly, there is a strong follow up of the forecast and the budget.

Q: If you're trying to encourage people to move on every couple of years, don't you think it will be hard to make them think more long-term.

A: You have to make sure that you leave your work behind you in good order, so the one taking over your job gets a nice fresh start.

Q: Thank you very much for your time.
## APPENDIX 8

**VOLVO AUSTRALIA'S KEY PERFORMANCE INDICATORS**

<table>
<thead>
<tr>
<th><strong>Volvo Truck Australia</strong></th>
<th><strong>Frequency</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>Monthly</td>
</tr>
<tr>
<td>Domestic truck sales</td>
<td>Monthly</td>
</tr>
<tr>
<td>Market share - heavy duty trucks</td>
<td>Monthly</td>
</tr>
<tr>
<td>Operating expenses % of sales</td>
<td>Monthly</td>
</tr>
<tr>
<td>Truck pipeline - truck units in stock</td>
<td>Monthly</td>
</tr>
<tr>
<td>Inventories - value/days</td>
<td>Monthly</td>
</tr>
<tr>
<td>Domestic receivables - value/days</td>
<td>Monthly</td>
</tr>
<tr>
<td>BBPS</td>
<td>Half yearly</td>
</tr>
<tr>
<td>CARE Survey</td>
<td>Half yearly</td>
</tr>
<tr>
<td>Quality index</td>
<td>Half yearly</td>
</tr>
<tr>
<td>Environment</td>
<td>Half yearly</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Truck Marketing</strong></th>
<th><strong>Frequency</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market share for states NSW, Vic, SA</td>
<td>Monthly</td>
</tr>
<tr>
<td>FL10 gross profit AUD</td>
<td>Monthly</td>
</tr>
<tr>
<td>National fleet GP %</td>
<td>Monthly</td>
</tr>
<tr>
<td>Operating income</td>
<td>Monthly</td>
</tr>
<tr>
<td>On-time delivery - marketing to dealer</td>
<td>To be added</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Truck Service</strong></th>
<th><strong>Frequency</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated warranty cost per chassis</td>
<td>Monthly</td>
</tr>
<tr>
<td>Average time for processing warranty claims</td>
<td>Monthly</td>
</tr>
<tr>
<td>Outstanding Wacol, marketing quality journals</td>
<td>Monthly</td>
</tr>
<tr>
<td>Training days per mechanic</td>
<td>To be added</td>
</tr>
<tr>
<td>How many warranty claims that are late</td>
<td>To be added</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Bus Marketing</strong></th>
<th><strong>Frequency</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market share for segments private, government</td>
<td>Monthly</td>
</tr>
<tr>
<td>Gross profit AUD</td>
<td>Monthly</td>
</tr>
<tr>
<td>Inventories - value/days</td>
<td>Monthly</td>
</tr>
<tr>
<td>Operating income</td>
<td>Monthly</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Truck and Bus Parts</strong></th>
<th><strong>Frequency</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly sales, 12 months average</td>
<td>Monthly</td>
</tr>
<tr>
<td>Gross profit %</td>
<td>Monthly</td>
</tr>
<tr>
<td>% of bin stock in shelf life 1</td>
<td>Monthly</td>
</tr>
<tr>
<td>Ratio of stock order lines to total order lines</td>
<td>Monthly</td>
</tr>
</tbody>
</table>
Exchange units not returned within 90 days
Operating income

**Retail Operations**

Operating income
Inventories - value/days
Receivables

**Factory (Truck assembly)**

Factory overhead expenditure $ for 1997
Factory overhead per working day
Wacol total factory hours (including indirect) per truck
Wacol factory labour efficiency in %
Indirect hours as % of total assembly hours
Wacol material - stock levels
Factory inventory - days coverage
Trucks (RD & OK’d) per employee (blue collars)
Product quality index - product audit (T & B) (number of remarks)
Work-in-process
Number of trucks finished

**Service**

Consolidated warranty cost per chassis
Average processing time of warranty claims
Average age of open Wacol quality journals

**Volvo Car Australia**

New Volvo unit car sales
Operating expenses as % of sales
Income before tax

APPENDIX 9

EMPLOYEE INFORMATION SHEETS

Volvo Car Australia
Financial Information - Month March

<table>
<thead>
<tr>
<th></th>
<th>Month</th>
<th>Year to date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Budget</td>
</tr>
<tr>
<td>Total Sales</td>
<td>$20.4</td>
<td>$18.7</td>
</tr>
<tr>
<td>New Cars Sales -</td>
<td>452</td>
<td>365</td>
</tr>
<tr>
<td>Volvo Units Only</td>
<td>0.65%</td>
<td>0.72%</td>
</tr>
<tr>
<td>Market share</td>
<td>7.4%</td>
<td>8.3%</td>
</tr>
<tr>
<td>- luxury segment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$2.6M</td>
<td>$2.6M</td>
</tr>
<tr>
<td>Income before tax</td>
<td>$1.7M</td>
<td>$0.2M</td>
</tr>
</tbody>
</table>

Comments on Year to Date Income before Tax

Variance to budgeted

Higher dealer intake of S/V40, higher profits achieved +$1.4M
Sales tax refund on company cars +$0.4M
Expenses new expected later in the year +$0.6M

+$2.4M

Reference: Employee Information Sheet from Volvo Car Australia, March 1997.
Volvo Truck Australia  
Financial Information - Month March

<table>
<thead>
<tr>
<th></th>
<th>Month</th>
<th>Year to date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Budget</td>
</tr>
<tr>
<td>Total Sales</td>
<td>$13.1</td>
<td>$16.4</td>
</tr>
<tr>
<td>Truck units sold in Australia</td>
<td>40</td>
<td>52</td>
</tr>
<tr>
<td>Bus chassis sale</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Parts sales</td>
<td>$2.8M</td>
<td>$2.9M</td>
</tr>
<tr>
<td>Truck market share</td>
<td>8.2%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$1.8M</td>
<td>$2.0M</td>
</tr>
<tr>
<td>Income before tax</td>
<td>-$1.9M</td>
<td>$0.0M</td>
</tr>
</tbody>
</table>

Comments on Year to Date Income before Tax

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower truck sales &amp; build at factory</td>
</tr>
<tr>
<td>Higher warranty costs</td>
</tr>
<tr>
<td>Costs of restructuring</td>
</tr>
<tr>
<td>Lower expenses due to restructuring</td>
</tr>
<tr>
<td>Lower interest costs</td>
</tr>
</tbody>
</table>

-$1.8M

Reference: Employee Information Sheet from Volvo Truck Australia, March 1997.
APPENDIX 10

TRUCK COMPETITORS - FINANCIAL COMPARISON

A search was made through the Australian Securities Commission database in respect of financial information for the following companies: International, Ford, Isuzu, Mercedes, Mack, Scania.

Including Volvo these companies represented 88% of the +15000kg truck market segment at YTD October 1996 (1995=90%).

However, no details were available for Mack and Mercedes. Mack have not yet lodged their 1995 accounts, and Mercedes had had, since 1992, a Class Order issued by the Australian Securities Commission which provides relief to qualifying wholly owned subsidiaries from the requirement to prepare accounts under the Corporations Law, subject to cross guarantees being in place between the Australian parent company and its subsidiaries.

The Ford and Isuzu financial results are for total company operations and it is not possible to make any valid comparison of their heavy truck activities.

The real financial comparisons are therefore limited to Volvo plus International, Scania and Kenworth. Between them they accounted for 53% of the heavy truck market at YTD October 1996 (1995 = 52%).

The Shareholder Equity to Total Assets ratios of these four companies were:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volvo</td>
<td>18.3</td>
<td>20.4</td>
</tr>
<tr>
<td>Internation</td>
<td>58.1</td>
<td>56.7</td>
</tr>
<tr>
<td>Kenworth</td>
<td>69.5</td>
<td>56.3</td>
</tr>
<tr>
<td>Scania</td>
<td>15.8</td>
<td>21.1</td>
</tr>
</tbody>
</table>

Reviewing the financial comparisons the main thing that stands out, apart from the financial strength of International and Kenworth, is the much higher levels of inventories and receivables carried by Volvo.

The following additional information has been extracted from the annual accounts for each competitor:

**International**

Since the company’s acquisition by IVECO NV the company has returned a pre-tax profit of $40 million over the period 1993 to 1995. All carried forward tax losses have now been eliminated.

The company launched a complete update of the ACCO range during 1995, and a new range of cab-over models was launched towards the end of 1995 with the full market
impact of these new releases to be realised from 1996. A range of light trucks (‘Daily’) was also released during 1995.

Also, mid 1995 a retail finance package denoted ‘Roadliner’ was launched. All categories of retail products are now available through International’s distribution network.

Payments for capital investments in property, plant and equipment totaled $6.2 million for 1994/95.

The company received ISO 9002 production and installation accreditation in 1994, and in 1995 ISO 9001 and ISO 9002 accreditation was received for each of its retail branches.

All liabilities of the company are unsecured. The company has bank facilities of $45 million of which less than 5% was being utilised.

**Kenworth**

The trading result does not include the finance company operations. The accounts disclose that Kenworth has an investment of $10.9 million in the finance company that represents 100% ownership of dividend only preference shares. No dividends were received from the finance company. The statement of cash flows disclose that tax losses were purchased from a related body corporate of $529 thousand in 1995 and $650 thousand in 1994, and as it appears the only local related company in these years was the finance company, and it can be assumed that the finance company operated at a loss in 1994 and 1995.


**Scania**

The finance company operations contributed $467 thousand in 1995 and $1.179 thousand in 1994 to the consolidated net profit result. Excluding the finance company contribution the bottom line result was $15 thousand profit in 1995 and a loss of $624 thousand in 1994.

Payments for capital investments in property, plant and equipment totaled $25.3 million for the two years, of which a significant amount is related to capitalisation of motor vehicle finance leases.

The company had secured bank facilities totaling $42.3 million in 1995 and $20.5 million in 1994. In both years these facilities were fully utilised.

Reference: Was given by the Company Secretary at Volvo.
## APPENDIX 11

### VOLVO TRUCK AUSTRALIA PTY LIMITED

### BALANCE SHEET

as at 31 December 1996

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>4,080</td>
<td>1,384</td>
</tr>
<tr>
<td>Receivables</td>
<td>34,597</td>
<td>35,958</td>
</tr>
<tr>
<td>Inventories</td>
<td>58,608</td>
<td>72,079</td>
</tr>
<tr>
<td>Other</td>
<td>193</td>
<td>1,416</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>97,478</td>
<td>110,837</td>
</tr>
<tr>
<td><strong>Non Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>1,500</td>
<td>0</td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td>11,851</td>
<td>10,535</td>
</tr>
<tr>
<td>Other</td>
<td>4,903</td>
<td>5,633</td>
</tr>
<tr>
<td><strong>Total Non Current Assets</strong></td>
<td>18,254</td>
<td>16,168</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>115,732</td>
<td>127,005</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors and Borrowings</td>
<td>83,505</td>
<td>91,069</td>
</tr>
<tr>
<td>Provisions</td>
<td>10,245</td>
<td>10,435</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>93,750</td>
<td>101,504</td>
</tr>
<tr>
<td><strong>Non Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>1,760</td>
<td>2,235</td>
</tr>
<tr>
<td><strong>Total Non Current Liabilities</strong></td>
<td>1,760</td>
<td>2,235</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>95,510</td>
<td>103,739</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>20,222</td>
<td>23,266</td>
</tr>
<tr>
<td><strong>Shareholders’ Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share Capital</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Retained Profits</td>
<td>10,222</td>
<td>13,266</td>
</tr>
<tr>
<td><strong>Total Shareholders’ Equity</strong></td>
<td>20,222</td>
<td>23,266</td>
</tr>
</tbody>
</table>
REFERENCES

Please note that the names involving Swedish umlauts have been arranged in their proper order which means that they appear last in the alphabet. This relates to the letters å, ä and ö which consequently will be shown after the last letter in the English alphabet.


