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Journal of Applied Leadership and Management

Provided in Cooperation with:
Professional School of Business & Technology, Hochschule Kempten - University of Applied Sciences

Suggested Citation: Reuter, Birgitta (2014) : Influence of Cultural Factors in Design of a Sino-German Management Accounting System, Journal of Applied Leadership and Management, ISSN 2194-9522, Hochschule Kempten - University of Applied Sciences, Professional School of Business & Technology, Kempten, Vol. 3, pp. 23-37, http://www.journal-alm.org/article/view/13413

This Version is available at:
https://hdl.handle.net/10419/156741

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Influence of Cultural Factors in Design of a Sino-German Management Accounting System

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Summary

Research questions:	In which ways do cultures differ? Do differences in culture affect management practice? What are the differences between Chinese and German controlling methods? What are the links between cultural factors and controlling methods?
Methods:	Two case studies of German companies involved in Chinese business ventures and a Chinese auditing and consulting company using a questionnaire as a basis to conduct structured interviews with management representatives of the case history companies.
Results:	Cultural factors influence controlling methods. Differences are shown in variations in the extent of delegation of responsibility and participative decision making, work standard and quality monitoring.
Structure of the article:	1. Introduction; 2. Literature Review; 3. Research Questions & Methods; 4. Detailed Analysis; 5. Conclusions; 6. About the Author; 7. References

1. INTRODUCTION

This research project examines the influence of cultural factors on the design of a company's management accounting system for a Sino-German business venture.

The objective of the research project was to demonstrate significant differences in administrative procedures and management thinking between Germans and Chinese in relation to collaborative projects and joint ventures. The study seeks to identify areas and ways in which collaboration can be improved for the businesses to operate more efficiently and smoothly.

The project is based on the cases of two German manufacturing companies with Chinese subsidiaries and joint venture. The author also received assistance from a Chinese auditing and consulting company which provided information about Chinese accounting practices and Sino-German business venture experience. The study is based on financial procedure documentation provided by the two companies together with interviews, generously arranged, with the company management.

This project seeks to prove that because of diverse cultural background and development history, two significantly different managerial accounting systems exist in Germany and China.

A questionnaire was constructed and formed the basis of a series of structured interviews with management representatives from the case history companies. The areas of investigation were book-keeping, company hierarchy, reporting, goal setting and planning and experience of collaboration in practice.

This paper demonstrates cultural specific controlling procedure differences between Germany and China in the businesses investigated.

2. LITERATURE REVIEW

Cultural Dimensions

The anthropologists Kroeber and Kluckhohn (1952, p.86) analysed 164 different definitions and interpretations and summarised them as follows:

"Culture consists of patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts; the essential core of culture consists of traditional (i.e. historically derived and selected) ideas and especially their attached values."

Hofstede & Hofstede (2005) defined cultural dimension as an aspect of one culture which can be measured relative to another culture.

Several studies have examined differences between cultures. Hofstede & Hofstede's one is the most comprehensive. They collected data from 1967 to 1973 from more than 100.000 IBM employees working in more than 70 countries. They then developed a theoretical framework and identified 4 primary criteria to differentiate culture:

Power distance, individualism/collectivism, masculinity/femininity and uncertainty avoidance (Hofstede & Hofstede, 2005)

Power Distance

Power distance defines the extent to which a group accepts that power is distributed unequally. This includes the emotional distance between superiors and subordinates. Large power distance means relatively inflexible and dictatorial control of subordinates by superiors. Smaller power distance means more egalitarian interaction and communication between subordinates and superiors (Hofstede & Hofstede, 2005).

China's social system is characterised by high power distance and multiple hierarchical layers. With a Hofstede's value index of 80 it scores high (Hofstede & Hofstede, 2005).

Early in life, Chinese children learn obedience. Parents are strictly respected. The principle of seniority plays a major role; often personal performance and qualification is less important than age in career advancement. Status-oriented thinking and hierarchical layers in business life are expressed as obedience. Superiors are not questioned or criticised. Power tends to be centralized (Hofstede & Hofstede, 2005). According to Hofstede & Hofstede (2005), Chinese workers expect to be told what to do. Showing individual initiative is not common. To compensate for power distance problems in China, guanxi is often used to solve practical problems by personal contact networking. Guanxi characterises relations and circumstances between people, power and objectives. Seligman (1999) describes it as follows:

"To the Chinese, guanxi is a sort of tit-for-tat, "You'll scratch my back, I'll scratch yours" arrangement. Someone with whom you have guanxi can be counted on to do your favors, bend the rules, and even break them sometimes on your behalf. It is a cultural phenomenon to Chinese all over the world…" (Seligman, 1999, p. 56).

Especially in business, the concept of Chinese networking is essential for success. It is expected that foreigners understand and act according to its rules (Seligman, 1999).

Guanxi has positive as well as negative sides. The positive compares with Western networking, based on trust and credibility. Negative parts such as offering kickbacks and promoting or employing people based on relationships or blood relationships are nepotism and bribery (Li, 2008).

In contrast, Germany scores relatively low on power distance with an index of 35 (Hofstede & Hofstede, 2005). Power is more evenly distributed and hierarchical layers result from organisational structure considerations. Personal qualifications and performance are crucial factors for career advancement. Initiative is expected from subordinates together with constructive criticism of superiors (Rothlauf, 2006).

Individualism versus Collectivism

Individualism versus collectivism is a cultural dimension which refers to the significance of individual versus the role of the group as a unit. In collectivistic societies the interest of the group dominates over that of the individual. The so-called 'we-group' or 'in-group' gives individuals a sense of collective identity. In individualistic societies the interest of the individual prevails (Hofstede & Hofstede, 2005).

Chinese society is characterised by collectivism. On the individualist scale China scores relatively low with the figure of 20. Group interest comes before self-interest and harmony inside a group is aspired. In China, an individual is born into an 'in-group'. This is primarily the family. A company with its employees can also act like an 'in-group'. These groups work with mutual obligations in which some get protection in exchange for loyalty. In collectivist societies particularism is the normal style and people of the 'in-group' are treated better than others. As a consequence, trust must be built before any business can be done. Chinese business systems need guanxi networking by individuals to work efficiently. In summary, in collectivist societies personal relationships are more important than the task (Hofstede & Hofstede, 2005).

Germany scores 67 on the individualist scale (Hofstede & Hofstede, 2005) and is characterised through an individualist society. There are relatively loose ties in relations. Only a core family exists. An individual is only responsible to himself and his conscience. People strive for independence. In individualist societies everybody is treated the same way. Here the task comes first and dominates personal relationships (Hofstede & Hofstede, 2005, Lere & Portz, 2005). When comparing Western and Oriental business cultures, the individualist-collectivist dimension is regarded as the most important one (Triandis cited after Chow, Shields, & Wu, 1999).

Masculinity versus Femininity

The masculine / feminine dimension is concerned with gender roles. At the masculine end, there is a strong differentiation between gender roles. Men are postulated to be competitive and assertive. Women are envisaged as self-effacing, tender and caring. At the feminine end, there is little differentiation in perception of the male and female role (Hofstede & Hofstede, 2005).

Despite the concept of gender equality in China, a paternalistic and senior oriented society dominates. Women are rarely in top positions and seldom promoted (Adili, 2008). This is similar in Germany. Both countries score relatively high on the masculinity scale (66) (Hofstede & Hofstede, 2005). Other masculine values are assertiveness, competitiveness and self-confidence. These values are softer in China due to the aspiration towards harmony and conflict avoidance (Rothlin, 1999, Adili, 2008).

Uncertainty Avoidance

Hofstede & Hofstede define tolerance of ambiguity and uncertainty within a society as 'uncertainty avoidance'. This defines the extent to which an individual feels threatened by ambiguous or unknown situations (Hofstede & Hofstede, 2005).

China scores low on uncertainty avoidance (score of 30) (Hofstede & Hofstede, 2005). According to Hofstede & Hofstede, the concept of uncertainty avoidance does not exist in the Chinese Value Survey. They stated that uncertainty avoidance may be more relevant in Western than Oriental cultures. Acceptance of uncertainty as an essential part of life is fundamental to many oriental cultures.

Germany scores medium to high values on uncertainty avoidance (figure of 65) (Hofstede & Hofstede, 2005). Germans have a low tolerance of the ambiguous and unpredictable. A structure within a rigid organisation with rules, laws and other regulations make Germans feel comfortable. From a cultural point of view, a fully developed accounting system is an expression of a cultural need for uncertainty avoidance. It fulfils a need for certainty, simplicity and truth. Precise rules, a detailed accounting system with a theoretical basis is a main characteristic of the German system (Hofstede & Hofstede, 2005).

Additionally, other cultural dimensions are:

Long-term versus Short-term Orientation

This dimension groups values which are based on the teachings of Confucius. China is the country with the highest score on the long-term orientation index (score of 118) (Hofstede & Hofstede, 2005). Chinese prefer a long-term development and indirect enforcement strategies. In Chinese perception the straight line is not always the best way to the objective. Perseverance, sustained efforts combined with conservation of resources can lead to slow results. In business, building networks and a strong market position, at the cost of immediate results, is a typical characteristic of a long-term strategy. Thinking in networks refers to guanxi, lifetime relationships. Short-term advantages and profit should not be allowed to damage the lifetime relationships (Hofstede & Hofstede, 2005).

In contrast Germany is more short-term oriented and scores 31 on the long-term orientation index. Short-term orientation corresponds to the pursuit of virtues related to the past and present. For Germans, short-term success

and profit is much more important (Hofstede & Bond, 1988, Hofstede & Hofstede, 2005).

Indirect versus Direct Communication

Chinese maintain a neutral, indirect and impassive communication style. Collectivism is an important precondition; as a people they are concerned about their 'face' (culture of shame) and do not show emotions. They show little facial expression and little gesture. Messages are often too subtle for foreigners to interpret. In contrast, Germans communicate more direct and expressively and express their opinions and emotions freely by facial expressions and gestures. They are only accountable to themselves and their conscience (culture of blame) (Trompenaars & Hampden-Turner, 1997, Trompenaars & Hampden-Turner, 2004).

Monochronic versus Polychronic Time

Chinese have a polychronic time concept, meaning plans and schedules exist but are constantly adapted to changing environments. People's individual issues are more important than a fixed schedule. Interruptions are not seen as disturbances and timeliness as well as compliance with figures is not an overriding principle. Germans have a monochronic time concept. Schedules, timeliness as well as compliance with figures are very important and seen as a precondition in business (Trompenaars & Hampden-Turner, 1997).

The biggest difference between Chinese and German cultures is that one is an individualistic and the other, a collectivistic society. Significant differences exist in power distance, uncertainty avoidance, long-term versus short-term orientation, indirect versus direct communication and monochronic versus polychronic time. There is little difference between German and Chinese societies in relation to the masculinity versus femininity criterion (Hofstede & Hofstede, 2005).

Management Accounting and Culture

Management practices which succeed in one culture may not work well in another country or culture.

Accountants and managers face two questions:

- In what ways do cultures differ?
- How does this apply to the elements of a management control system?

Historical Overview of Management Accounting in China

The coming into power of the Communists in 1949 was a milestone in Chinese history and development. Capitalism was replaced by socialism. Private enterprises were transferred to public ownership and self-employed businessmen nearly disappeared. Class struggles occurred. Economically, it was the beginning of isolation from the outside world. Central planning became a core concept. This led to five-year national plans. These cascaded down from central to local government (Chow, Duh, & Xiao, 2007).

The Cultural Revolution (1966-1976) was intended to eliminate all surviving capitalist tendencies. Western concepts, business techniques and accounting concepts were prohibited because they were considered as capitalist exploitation. Instead, Soviet accounting was adopted as more politically compatible. In this system accounting was only regarded as a tool for central planning. The biggest problem of non-private ownership was lifetime employment and social welfare, the so-called "socialist iron bowl". "Shanbufeng", the soft budget constraints and plan-based resource allocation through the government meant that individual firms had no incentive to use management techniques for improved efficiency. Senior management was appointed by government and was only responsible for production quotas instead of financial objectives. Prices were dictated by the central government and not defined by supply and demand. Losses were covered by the state and profits were claimed by the state. During this time Chinese accounting was reduced to book keeping (Ezzamel, Xiao, & Pan, 2007).

As a result of disastrous economic circumstances and pressure, Den Xiaoping initiated a shift to economic development in 1978 (Third Plenum of the Communist Party of China's 11th National Congress). Economic development was prioritised and political activities and reforms should support it. This was followed by the introduction of open door policies, mixed ownership (private and public) and marketisation. The country was opened to foreign investors and the first Sino-foreign joint ventures were established. International trade increased dramatically. Shortly after 1983, state owned companies were given greater autonomy in several areas like e.g. planning, pricing and production decisions. The ones which failed were allowed to go bankrupt. During

1987-1992 most small state owned companies were sold or leased (Chow, Duh, & Xiao, 2007).

This rapid change from central planning to market economy created demand for management techniques to improve commercial effectiveness and efficiency. Enterprises which collaborated with foreign companies through joint ventures were the first which adopted modern management techniques (Firth, 1996).

Current Accounting Procedures in China and Germany

After the Cultural Revolution and the beginning of modern economic development, business management had no experience of competition, cost pressure, book keeping, cost accounting and profit/loss concepts. In a planned economy only conformity to plan was necessary (Christoph, 2007).

Energy costs were and are still maintained low to sustain economic growth. Labour costs are still low. Chinese companies experienced no cost pressure from these factors (Wang & Chu, 2009).

In contrast, German economic development since the Second World War has been closely based on the model of free market profit and loss economics with less subsidy protection than in China.

In general, management accounting relies on data from book keeping. Data origin, quality, timeliness and completeness need to be reliable when building up a management accounting system (Christoph, 2007).

Due to the questionable quality of book keeping, it is necessary to verify the quality of Chinese information systems before they can be used to process data for management accounting. Chinese IT systems and infrastructure are commonly not sophisticated (Christoph, 2007).

In contrast to Germany, management accounting has a lower status than that of financial accounting in China. Again in contrast to Germany, the controller is not an adviser to senior management or critical management counterpart. In China the main function of control is for checking. From Chinese point of view the main purpose of management accounting is to increase profit margins through cost cutting. The main function of German controlling is steering of economic aspects of business. Unlike those of Germans, the qualifications of Chinese controllers are often low and management commonly cannot understand management accounting (Wang & Chu, 2009, Christoph, 2007).

Chinese management accounting is generally not sophisticated when compared with German systems and is frequently in process of implementation. In a survey of Shanghai's privately owned enterprises 15,5% of respondents had not heard about a management accounting system at all and relatively new tools are not widespread or understood (Huang & Lu, 2005). In industries where competition is strong, the spread of management accounting is much wider (O'Connor, Chow, & Wu, 2004). Cost centres, their structures and internal cost allocation are not common. From an organisational point of view, management accounting is more frequently subordinate to financial accounting in China than in Germany (Gerlach, 2009).

Cultural Differences and the Management Control System

Van der Stede (2003), Granlund and Lukka (1998) and Kidger (2002) have examined whether differences in national culture can trigger adjustments in the management information systems (MIS). All 3 studies revealed a tendency towards a uniformly implemented management control system. Van der Stede (2003), in a good evaluation, stated that national culture is not a statistically significant factor in the design of a management control system (MCS). He left the question open if adaptation to local culture is too costly or ineffective. Granlund and Lukka (1998) designed their study to find similarities rather than differences. They argued that the driver for convergence dominates that of divergence. Kidger (2002) also found a widespread tendency towards global integration by international companies. These companies use worldwide control systems and best management practices.

Chow, Shields, & Wu (1999) analysed descriptions of earlier studies, found them inadequate for reliable conclusions and developed their own approach. They developed a good and well-structured method to measure the effect of national culture on management controls. They found that management control systems (MCS) can be adapted to local circumstances.

Lu's (2006) theoretical investigation analysed 14 existing studies dealing with the impact of cultural distance on management systems. His source studies showed inconsistent results. Lu compared and assessed the theoretical and statistical methods. His study does not draw practical conclusions.

Chow, Duh, & Xiao (2007) used a different approach. They examined the extent of management accounting practices in China and identified factors which hinder or facilitate application. The study provides a good summary of current practices and accounting techniques used in the People's Republic of China.

Efferin and Hopper (2007) examined specific Chinese business preferences. Their results confirm prior studies (e.g. Merchant, Chow, & Wu, 1995) which show that Chinese owned businesses have low employee participation, over-centralisation, a tendency to subjective rather than objective control, few rewards related to results and a preference for group rather than individual reward.

Choe (2004) examined cultural effects on information needs and characteristics like content, amount and format. He found out that different national cultures have different information requirements.

Factors restricting the Use of Management Accounting Techniques in an Organisation

Meng, Wang, Wang, & Yang (1997), O'Connor, Chow, & Wu (2004), Christoph (2007) and Zinzius (2006) identified several factors which impede diffusion of management accounting techniques.

Lack of attention by senior management to management accounting issues and fear of losing power by senior management prevent expansion. Incompatible internal and external economic environments are other limiting factors. Financial accounting data is often unsatisfactory and is inadequate for implementation of management accounting systems. Educational limitations, limited capability of management accountants and poor operating of techniques also prevent further development of management accounting. IT competence and equipment is often on a low level and impedes improvement. Decision makers sometimes also have inadequate knowledge of accounting and finance and do not see the necessity and benefits of management accounting systems (Meng, Wang, Wang, & Yang, 1997, O'Connor, Chow, & Wu, 2004, Christoph, 2007, Zinzius, 2006).

Factors diffusing the Use of Management Accounting Techniques in an Organisation

Firth (1996) confirmed the observation that those Chinese companies which are engaged in joint ventures with foreign partners make more changes and use newer techniques in their management accounting system than other Chinese companies.

Granlund and Lukka (1998) identified globalising and harmonisation tendencies in accounting and legislation as other triggering factors.

Training and education of Chinese students in Western universities also assists continuing development (Wang & Chu, 2009).

Synthesis

The research projects reviewed above differ significantly. They vary from theoretical, statistical approaches to more practical ones. Some studies describe uniformly implemented management control systems and others show cultural adaptations. Few papers describe specific cultural adjustments in detail. Most authors write in general terms in relation to cultural dimensions. Specific case histories and concepts are rare.

Gerlach (2009) and other authors work (Hofstede & Hofstede, 2005, Chow, Duh, & Xiao, 2007, Wang & Chu, 2009) recommend adaptation to local culture and environment to achieve successful implementation of management accounting.

Essential Issues in Cross-cultural Business Ventures

For a successful cross-cultural business venture I have identified some essential factors. They are described as follows. Without them, successful collaboration, cooperation and achievement of objectives are unlikely.

- Good communication
- Information exchange
- Mutual coordination of strategy
- Coordination of staffing and use of human resource
- Clear decision making hierarchy (viz. centralization, decentralization)
- Clear definition of roles and responsibilities
- Mutual understanding and appreciation as the basis for good cooperation

3. RESEARCH QUESTIONS & METHODS

In published literature there are no specific guidelines or models for a management control template for intercultural business projects.

I have therefore formulated my own framework of criteria to evaluate the importance of cross-cultural issues in Sino-German joint business ventures.

Because of different cultural background and development history, two significantly different managerial accounting systems exist in Germany and China.

The research theme will be further refined through 5 sub-hypotheses. These are as follows:

1. Assumption that Chinese management accounting emphasises long-term orientation and long-term planning due to the very strong characteristic of Bonds 'long-term versus short-term orientation' and concentrates less on short-term success than the German system. This implies more usage of non-financial KPIs in the Chinese system.
2. Due to the high power distance in China I anticipate strong hierarchies within a company which has limited delegation and little participative decision making.
3. Assumption that the status, importance and accuracy of management accounting are higher in Germany than China due to the well-developed German characteristic of uncertainty avoidance.
4. Chinese rather polychronic concept of time and perception that people are more important than a schedule will cause delay in delivery of reports and failure to meet time targets.
5. Assumption that subjective rather than objective control is applied more often in China than Germany due to emphasis on personal relationships, especially trust. In China control is applied more to operatives (people) than to functions or results (e.g. profit, process efficiency, machine performance). Performance is different between Germany and China because in China there is no direct achievement related award ('bonus culture') of the kind common in Germany.

Procedure and Participants

For my qualitative study I used a structured interview based on a questionnaire. This questionnaire contains specific (closed) and general (open) questions. The procedure was assessed in a pre-test interview. The interviews began with an explanation of my reason for the questioning and an explanation of my master thesis topic i.e. cultural influence on the design of a management accounting system. The interview continued with a outlining of a possible confidentially clause. If required thesis copies will be distributed to my information sources after completion of the work. The interviews continued with requests for general information about my interlocutor and the company. This was followed by the prepared formal questions.

Case study 1 relates to a family company, Schattdecor AG, founded in 1985 and based in Thansau, Bavaria, Germany. Its business is decor printing. The company has production facilities in Germany, Poland, Italy, Russia, China and Brazil. In China, Schattdecor also operates with a Sino-German joint venture, named Kingdecor.

Case study 2 relates to Endress + Hauser Wetzer GmbH +Co. KG, Nesselwang, a company founded in 1872 and taken over by the Swiss Endress + Hauser group in 1976. Its business is development and manufacturing of temperature transmitters, sensors, recorders and system components for several industries including chemical/ petrochemical, pharmaceutical, food, water /sewage treatment, raw materials, power, oil and gas, pulp and paper etc. The company has production facilities in Germany, USA, Italy, China and South Africa. In China, Endress + Hauser operates with a wholly-owned subsidiary named Endress – Hauser Wetzer (Suzhou) co. Ltd.. Two other companies of the Endress + Hauser group also have subsidiaries in China.

Case study 3 relates to Ecovis Ruide Certified Public Accountants Co., Ltd., China. Its business is tax consulting, accounting, auditing, legal advice and management consulting services for Small Medium Enterprises (SME).

Interviews with representatives of Schattdecor group were held as follows.

The Interview with Mr. Veit Bommer, Head of Controlling, Schattdecor AG was held on 08/09/2009 in Thansau. Mr. Martin Pan, Head of Finance Schattdecor (Shanghai) Co., Ltd., was interviewed on 28/10/2009 in

Shanghai and Mr. Zhu Yi, General Manager, Schattdecor (Shanghai) Co., Ltd., on 11/11/2009 in Shanghai. The interview with Mr. Yu Wei Feng, Head of Finance, Kingdecor (Quzhou, Zhejiang) Co., Ltd., took place on 11/11/2009 in Quzhou.

Mr. Wang Lun, Partner of Ecovis Ruide Certified Public Accountants Co., Ltd., was interviewed on 28/10/2009 in Shanghai.

The interview with Mr. Robert Augat, Director Financial Management, Endress + Hauser Wetzer GmbH + Co. KG was held on 19/11/2009 in Nesselwang.

Themes for Comparative Analysis

The object of this study is to collate, analyse and compare the influences of cultural factors on management accounting between Schattdecor AG, Schattdecor (Shanghai) Co., Ltd. and Kingdecor (Quzhou, Zhejiang) Co., Ltd. A less complete comparison was made between Endress + Hauser Wetzer GmbH + Co. KG, Nesselwang and Endress + Hauser Wetzer (Suzhou) Co. Ltd. Ecovis Ruide Certified Public Accountants Co., Ltd., China contributed with general information about Chinese financial and management accounting and experience of clients with Sino-German business activities.

The interviews contain the following question sections:

Book Keeping Procedures

This section includes a review of book keeping principles, structure, standards and practice in both countries. I investigated value, accuracy and completeness in financial accounting and assessed if book keeping data can be used for management accounting without adaptation.

Management Personnel Structure

This section of the interview is concerned with the position and role of management accounting activities in relation to the management personnel structure and hierarchy of the company.

Reporting Procedures

The purpose of this section of the interview is to clarify the importance and priorities of financial and non-financial reports and KPIs in management and stakeholder's information supply.

Management Accounting Tools

The questionnaire is designed to reveal as much information as possible about the types of management accounting tools and the ways in which they are used in the companies studied.

Goal Setting and Planning

The results of the investigation of goal setting and planning procedures show the degree of employee involvement and the allocation of responsibilities. This also includes goal setting and incentive aspects of employee-management interaction in both short- and long-term perspective.

Collaboration in Practice

Evaluation of collaboration covers aspects of interaction, identification of areas of improvement, plus barriers and driving forces in co-operative working.

4. DETAILED ANALYSIS

Book Keeping Procedures

When comparing structure and content of financial statements according to the Chinese Generally Accepted Accounting Principles (GAAP) and German GAAP / International Financial Reporting System (IFRS) only few differences are noticeable. Chinese GAAP is very close to IFRS. Accounting standards are converging.

Both companies, Schattdecor and Endress + Hauser Wetzer, have well-defined accounting systems with integrated accounts structures, well-defined cost centre structures and daily updates of the ledgers. This provides reliable data in the financial accounting system. As a result, management accounting can rely on data to build up a Management Information System (MIS).

Management Personnel Structure

The hierarchies at Schattdecor group and Endress + Hauser Wetzer group are relatively flat. Controllers at Schattdecor Thansau and Shanghai, and Endress + Hauser Wetzer, Nesselwang have similar responsibilities and job descriptions. Their senior staff are involved in decision making and advising senior management. After a completed job training and coaching, the Chinese controller's status will be comparable with Endress + Hauser Wetzer, Nesselwang. At Kingdecor the situation is slightly different. The joint venture has no equivalent to management accounting. The need for a controller is realised by senior management in Shanghai. Limitations of education and lacking potential in

the Chinese joint venture's staff prevent expansions of operations and further development.

Reporting Procedures

Management accounting relies on data from book keeping. Minimal modifications are necessary in Schattdecor group to transfer book keeping data for controlling purposes (depreciation, inventory valuation, accruals).

At Schattdecor and Endress + Hauser Wetzer group financial and technical reports from management accounting are reliable and submitted in time.

Many reports are issued by Schattdecor headquarters, several by Shanghai and only a few by Kingdecor. Management accounting at Schattdecor Thansau coordinates information and reports. Shanghai's accounting is only responsible for financial reports. Endress + Hauser Wetzer have completely standardised their reporting packages and procedures.

Besides customer and employee oriented figures, profit is important for Schattdecor headquarters, subsidiary and joint venture. At the highest company levels financial data (profit) is dominant. Technical data is also important- especially for middle management and employees. Long-term KPIs are used less frequently. Endress + Hauser Wetzer regard technical and financial aspects as equally important and prioritise customer figures.

Some figures from technical reports (Kingdecor) need to be treated with care. Data may not always be correct (e.g. machine down-time and scrap rate) due to fear of loss of face. Technical KPIs are published within the company and seen as important figures for production staff. Everybody knows about data 'embellishment' – including senior management both in China and Germany. The Chinese forego the opportunity to use this information for learning and improvement purposes in order to maintain face. German headquarters identifies the data inconsistencies and corrects them.

Management Accounting Tools

Traditional cost accounting systems are applied throughout the whole Schattdecor group. Thansau and Shanghai use several other tools that the joint venture Kingdecor does not have. They use the SAP system to generate analysis and reports. At Kingdecor only elementary tools are used.

At Endress + Hauser Wetzer, Nesselwang and Suzhou the same tools are applied. These combine traditional systems and new developments.

Both companies concentrate on tools which are easy to understand and apply.

Goal Setting and Planning

At Schattdecor group and Endress + Hauser group only minor differences between German headquarters and Chinese subsidiary exist in planning horizon. All company plans are relatively flexible and can be revised when necessary. Incentives and bonuses are all based on individual performance.

Planning process and goal setting is exercised top down and bottom up in reverse flow at Schattdecor Thansau and Shanghai and in the Endress + Hauser Wetzer group. In Schattdecor's joint venture the process is a top down approach.

The most significant differences are in how work is done and how work is checked. German methods empower employees and check results. Schattdecor Shanghai and Endress + Hauser Wetzer coach their employees to take individual responsibility and be more proactive. At Schattdecor's joint venture the work style is tight guidance with clear instructions and personnel and action control.

Collaboration in Practice

Schattdecor Thansau, Shanghai and Endress + Hauser Wetzer, Nesselwang consider that they have good Sino-German collaboration based on mutual trust and respect for each other's cultures. Personal contact, interpersonal skills, cross-cultural competencies and involvement in decision making are essential for good collaboration. Initial mutual visits and familiarization created trust and were valuable.

Both companies, Schattdecor and Endress + Hauser Wetzer have excellent senior management in their Chinese subsidiaries. Both general managers have been in Germany for a long time and know German culture. Both are respected by Chinese and Germans alike and can mediate between the two cultures if necessary.

Assessment of the research hypotheses

The data from interviews verifies the main hypothesis in part.

Sub-hypothesis 1 that Chinese management accounting emphasises long-term orientation in planning and business and uses more non-financial KPIs cannot be confirmed by the information collected in the case studies. In both case history companies, German headquarters and Chinese divisions/ joint venture used the same mostly short-term oriented KPIs. Long-term conceptual strategy in Chinese partners' planning was not detectable.

Assumption 2 is verified by the results described in the case studies. In practice there are significant differences in the extent of delegation and participative decision making between German and Chinese divisions. This occurs even though the companies' organisational charts and hierarchical layered structure do not appear different in theory. At Kingdecor, the general managers make decisions with relatively little involvement by middle management. In the wholly-owned subsidiaries of Schattdecor and Endress + Hauser Wetzer, a long-term employee coaching approach has been established to empower employees. This is intended to enable employees to develop their independent work and decision-making capabilities and skills.

Sub-hypothesis 3 is supported in part by the results. The status and importance of management accounting in wholly-owned subsidiaries and German headquarters are similar. In Schattdecor's joint venture its importance is lower. There is no equivalent to German controlling procedures. Accuracy of performance in all aspects of a business venture is a principal objective for Germans. It is not given the same importance by Chinese.

Assumption 4 that the Chinese polychromic time concept causes delay in submitting reports is not proven but clearly causes changes in daily schedules more frequently than in Germany. Reports are submitted on schedule by all partners in the case history companies' collaborative ventures.

Sub-hypothesis 5 is partly confirmed. The ways employees are monitored and directed differ significantly between German headquarters and Chinese divisions. German headquarters of case history companies measure/control performance in terms of results. Chinese subsidiaries operate on the basis of result-driven control combined to some degree with action control. Both personnel and action control are used in the Chinese based joint venture operation. Bonuses and incentives however do not differ between German headquarters and Chinese divisions. All bonuses are based on individual performance in the case history companies.

Differences in management procedures between Chinese wholly-owned subsidiaries and Sino-German joint venture

When visiting Schattdecor's wholly-owned subsidiary in Shanghai, the first impression is of visiting a German branch of the company. In accordance with corporate identity model, the building and premises look identical. The company language is German and the environment indistinguishable at first glance from the Thansau offices. Kingdecor in Quzhou gives an immediate impression that one visits a typical Chinese (i.e.non-German) company.

The research results demonstrated that German headquarters and Chinese wholly-owned subsidiaries are similar in several aspects. German headquarters and the Chinese wholly-owned subsidiaries of my case history companies use the same systems of management accounting tools, techniques and procedures. They have the same hierarchical structure, controlling methodology, reporting packages and KPIs. Goal setting and planning procedures are also similar. The superficial similarities partly conceal differences in ways of thinking and work style.

There are significant differences between Schattdecor's wholly-owned subsidiary which has Chinese senior management (with German citizenship) and the more Chinese-oriented senior management of the Kingdecor joint venture business. In Kingdecor, tools, methods and procedures are varied and different from those of Schattdecor. The Chinese company also uses a different ERP-system (Enterprise Resource Planning).

Additional findings

The results from case history companies studies show, that the most significant differences between German and Chinese practices are not in accounting tools, methods or procedures but relate to how people think and their work patterns and habits. The case history interviews with management representatives from supporting companies gave insights into their practice in bookkeeping, company hierarchy, reporting, goal setting procedure and planning and collaboration in practice. Additionally, the interviews gave further practical insights into the following differences between German and Chinese thinking, work style and approach to problems.

In Sino-German business ventures two very different attitudes to rigidity and flexibility meet. Chinese market conditions require enormous flexibility from business people. Companies have to adapt frequently to changing environmental conditions and make quick decisions. Appointments and schedules in China change frequently. 'Change is faster than the planning' expresses the Chinese trait of prioritising flexibility over schedule. If a decision turns out to be a mistake, it will be modified and tried again in an iterative process. The Chinese system requires unusual flexibility from a German partner in a business venture. In contrast, Germans need a fixed schedule to feel comfortable. The German method is to plan ahead, think carefully about a decision, analyse alternatives and consequences. This process makes decision making a slow process.

Considerable training and coaching of Chinese employees is necessary for a Chinese subsidiary to meet headquarters expectations about work standards and performance. It is unsatisfactory in the long term to assume that German technical staff must be present in China to monitor performance and quality control and to act as technical supervisors. The current educational levels of Chinese employees are commonly not comparable with the standard of equivalent German employees. Training and coaching programs are needed to help empower Chinese employees so that they can take over responsibilities and work unsupervised. It is clear from Chinese attitudes and educational levels that this process will take a long time.

The same KPIs are frequently used in German and Chinese business ventures, e.g. the KPI customer satisfaction. In Germany the focus is on high quality standards to satisfy customer needs. In China customer satisfaction includes besides technical quality standards service support and customer care which are of great importance. The customer support services include social contacts in a way which is not normal in Germany.

The Chinese have a different understanding of quality. To operate successfully, Chinese divisions need to accept more specific quality standards and to establish their own reliable internal quality control. Chinese work discipline declines when not continuously monitored. Germans have a deep rooted sense for discipline and are perfectionist on an individual as well as corporate level. These differences are illustrated by different customer quality expectations in products for local Chinese markets and export markets. Very significant quality differences are noticeable in goods manufactured for local markets where price is the main criterion, compared with those for export markets where quality is often more important than price.

Money is the most important work incentive for a Chinese employee. This may lead to instability in the workforce as individuals move frequently in search of higher wages. In contrast Germans want, besides earning more money, career progress. In German companies seniority is valued and there is a desire for satisfaction in work. Workforce instability in China is a serious problem. It is important in a Chinese subsidiary or joint venture to develop methods to retain a stable workforce. This should include training as well as financial incentives.

To improve efficiency and effectiveness in Sino-German business ventures, it is necessary to recognise the differences between the two cultural methods and procedures and find compromises which are acceptable to both sides.

Recommendations for Action

From my results, I have developed a list of recommended actions to improve collaboration in Sino-German business ventures:

- Make particular efforts to develop direct and personal contacts, particularly at the beginning of a co-operative project. This will help to avoid misunderstandings and to create a basis of trust. Understanding of cultural differences between Chinese and German employees facilitates a better understanding of each other and improves collaborative working. A common language is essential for proper communication and collaboration. Language courses for both Chinese and German employees are important.
- Joint participation of German and Chinese staff in teamwork projects will greatly help in smooth running of the project. These actions need effort from both sides. It is not satisfactory to expect Chinese to work in German style to German standards without reciprocal effort from venture partner staff.
- Chinese senior management staff should have educational or business experience in Germany. Experience for individuals by immersion in the partner's business culture is a key success factor in Sino-German business ventures. In this way both Chinese and German senior

management will have some appreciation of the ways in which conflict can be avoided or resolved. Senior management should be acceptable to and respected by both Chinese and German sides. Reciprocal trust in the judgment and decision making at headquarters and in Chinese staff in the subsidiary company/ joint venture is essential to a successful co-operation. Integration of Chinese senior management with headquarters senior management and their involvement in company decisions and strategies is most important. This will foster Chinese company identification and motivation. Thorough research into the motivation of Chinese employees is essential in producing a strategy for a stable and contented workforce. This should target both an incentive based wage structure and employee support services within the company.

- There is a need to implement 'simple' management accounting tools which are easy to understand and apply. It is important that Chinese senior management should understand and appreciate the value of controlling tools. Even if the tools are not the most sophisticated, they should be adequate for their task. Only then will management accounting tools be accepted.
- It is necessary that financial accounting procedures should be reliable before book-keeping data is used for management accounting purposes.
- Local culture should be analysed and considered when a management accounting system is being designed and operated.

5. CONCLUSIONS

This research project has demonstrated differences in business practice (in both procedures and ways of thinking) with particular emphasis on controlling, by the management of German companies operating subsidiaries and collaborative ventures in China and the normal German business methods. This study highlights topics of potential importance for German companies involved in or considering joint or collaborative ventures with Chinese partners. A fuller investigation would produce information and case history guidelines which could improve and facilitate inter-cultural business collaboration.

It appears that the working efficiency of Chinese companies, in international terms, is improved by participation in joint ventures with western companies. It might benefit some overly rigid German companies to study, appreciate and adopt some of the flexibility which Chinese working practices allow. It appears that both parties can potentially learn and benefit from constructive mutual learning in joint business ventures.

Limitations

Schattdecor and Endress + Hauser Wetzer are companies with very strong company culture and clear philosophies. Both value cultural diversity and emphasise trust, responsibility, transparency and openness. In both companies, the Sino-German business venture began with the focus on direct personal contact, joint decisions and responsibilities. This helped to create a basis for successful collaboration. Both companies currently consider their Sino-German co-operation to be very good. The results obtained in this research project are not easily transferable to other companies because of the special circumstances and particular business philosophies and models of the two businesses studies.

Language and the need for translation in China imposed some limitations on this project. The quality of some of the technical English translation in English language interviews could lead to possible misinterpretations.

Possible further research

This research project is a pilot study with limited case histories. It has revealed a series of interesting and worthwhile topics, worthy of further investigation. A fuller investigation will provide useful guidelines for both German and Chinese companies which are considering collaborative business ventures. It would not be reasonable to draw general conclusions and make broad recommendations without more investigation and detailed questioning across a wider variety of companies. Further research should distinguish between wholly-owned subsidiaries and joint ventures. A fuller study should also accommodate the importance of individual company culture.

In recent years there have been significant changes in Chinese accounting standards (2007 introduction of CAS for listed companies, 2008 for state-owned com-

panies and obligatory for big and middle-sized companies from 2009). Currently, no significant data is available. The assessment of convergence of Chinese accounting standards to IFRS requires further detailed investigation to evaluate the implications of this harmonisation process and compare German and Chinese financial statement methods.

The questionnaire produced useful data from case study companies. The questionnaire focused on specific themes, including tools, procedures and methods to identify differences between Chinese and German management accounting practices. The results showed, that qualitative aspects like ways of thinking and work style are significantly different between the two cultures. For further research I recommend that these topics should be included in any future questionnaire. It was very good to have the opportunity to interview both parties in the Sino-German ventures. This gives an impression of how each party thinks. The differences in perspective give an insight into the ways in which the collaboration works and indicates some areas of potential difficulty.

6. ABOUT THE AUTHOR

After studying Business Administration at Fachhochschule Pforzheim, the author worked in management accounting departments in two hospitals for several years. She continued her studies in a Master of Business Administration on International Business Management and Consulting. Since completing her MBA, the author has been a Bavarian State Government employee concerned with forensic problem evaluation and resolution in financial practice.

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