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"Global" Management Accounting Research: Some Reflections

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I. INTRODUCTION

In July 2016, I was asked to give a plenary address at the American Accounting Association's (AAA) Joint International Conference of the *Journal of International Accounting Research* (*JIAR*) and *Accounting, Organizations & Society* (*AOS*) in Augsburg, Germany. I spoke on the prescribed theme of "Management Accounting Research in a Globalizing World," for which I was asked to reflect on the following points:

1) Management accounting techniques that are unique to a country and region but that offer lessons or solutions to other regions. (This is particularly relevant where techniques are not generally well known outside the home region.)
2) Management accounting issues and solutions that arise from the unique legal, cultural and economic background of countries and regions.
3) Global studies that compare and contrast solutions to management control issues across borders.
4) Studies examining the diffusion of management accounting techniques internationally.
5) Papers studying the link between (international) financial reporting standards and management accounting practices.
6) Unique methods of examining management control issues drawn from other areas of research such as sociology, anthropology, politics and economics.

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I ignored (1) and only touched indirectly on (6), but I commented on (2), (3), (4) and (5).[2] Specifically, I took (5)—the link between (international) financial reporting standards and management accounting practices—as my starting point. I then spoke about (4)—the diffusion of management accounting techniques internationally—because this is characteristic of globalization. But I hastened to caution that globalization is not strictly necessary for "global" (or international) management accounting research because there are fruitful contributions to be expected from studying "management accounting issues and solutions that arise from the unique legal, cultural and economic background of countries and regions" as alluded to under (2), not only in a comparative way as suggested under (3), but also by way of generating "theoretically generalizable" findings from each context on its own.

This brief article synthesizes my remarks, in the following order. In the next section, Section II, I begin with a preamble about the link between financial reporting standards and management accounting practices. I refer to what is "mandatorily" required vs. "voluntarily" adopted, where this distinction, if it ever were helpful, fades when one treads into corporate governance. In the third section, I provide some examples of global studies that compare and contrast solutions or remedies to management control issues across borders. One common tenet of these studies is that "uniformity" of practices or regulations is "counter-productive" given national/cultural variations across countries. However, I question the oft-proffered wisdom of the so-called "non-uniformity" prescription by considering the costs of local or situational adaptions in Section IV. This then logically segues into a consideration and discussion of the "homogenizing" effects of globalization in the fifth section, where I ponder whether globalization might actually reduce the power of comparative studies across countries or regions, or whether, regardless, there remains great benefit to be had from studying "local" practices that can be theoretically generalized. Section VI provides some suggestions to potentially strengthen the design of comparative studies to try and maximize their (conceptual, if not econometric) power.

II. "MANAGEMENT" ACCOUNTING PRACTICES

When one is asked to speak on *management accounting*, this naturally conjures up notions of practices that organizations *voluntarily* adopt to inform their *internal* decision making (see, for example, Van der Stede 2015), as opposed to their *financial accounting* practices which are seen as *mandatory* for *external* reporting purposes. However, whereas the labeling of practices as voluntary vs.

[2] Coincidentally (given the location of this conference), an example of a management accounting technique that is unique to a country and region but that may offer insights to other regions is the Germanic *grenzplankostenrechnung* (see, for example, Krumwiede and Suessmair 2008). The reason why I "ignored" this item on the menu is because I wanted to focus more on generalizable ideas in a scholarly sense rather than listing (an inevitably incomplete) set of techniques (in an inevitably more descriptive sense).

mandatory or internal vs. external may remain at the core of such management vs. financial accounting categorizations, this distinction is equally quite often breached. This is, however, in my view, not an issue at all because these distinctions can only be academic at best, and unhelpful at worst.[3]

What's more, if one is not bothered by such academic definitional "confusions", but instead focused on or interested in the studying of practices however labeled, then one can see many potentially interesting research opportunities stemming from where such crossovers may occur, particularly in a global context (which usually adds further variation in the practices about which there may be yet further variations in disclosure across countries to boot). The study that I use as an example in the next section (Hooghiemstra, Hermes, and Emanuels 2015) nicely fits this description because it exploits the variation across countries in the disclosure (which is *not mandatory everywhere* yet inevitably *external*) of *internal* control weaknesses (which bear on the adequacy of various *management accounting* and control practices).

My key point therefore as a mere preamble to what follows is that we, accounting scholars, should be interested in whatever organizational practices that accounting broadly defined can shed light on or inform without being shackled by whether these are of the managerial or financial accounting type. Indeed, as I have argued elsewhere, increased regulation following the 2008 financial crisis (also known as the "global financial crisis") has turned much of what were strictly internal management accounting practices "inside out" (Van der Stede 2011). And much of what we call "corporate governance" blends elements of both financial and management accounting (see also Balachandran, Dossi, and Van der Stede 2010).

III. The Case Against Global, "Uniform" Prescriptions

I use the aforementioned article by Hooghiemstra, Hermes, and Emanuels (2015) [henceforth HHE] published in *Corporate Governance: An International Review*. I will give other, similar references from accounting journals, but also from finance, illustrating that even a distinction between corporate governance and accounting is academic only, at best. To be clear, HHE serves as an example only of a study that seeks to understand how national culture affects disclosure or reporting practices about firms' internal control weaknesses.

Essentially, HHE's core *premise* is that national culture affects managers' perceptions of the costs and benefits of disclosing information and, consequently, drive managers' disclosure choices. The context or *setting* in which HHE explores this is outside of the United States. The reason for this is straightforward. In the United States, the law (SOX) prescribes reporting on internal controls. Elsewhere,

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[3] For a related take on this in a different context, see for example Zimmerman (2016).

however, managers have discretion with respect to the amount of information they disclose on the firm's internal controls,[4] presumably reflecting managers' economic and agency incentives. Consequently, there is likely to be considerable variation in reporting, not only between firms within a country but also cross-nationally. HHE's key *question* thus is whether the perceptions of the costs and benefits of voluntarily disclosing information on internal controls are culturally determined?

There is reason to believe that this is so because of the following *logic*. Clearly, there are cost-benefit tradeoffs of disclosing. For example, there is the potential benefit of reputation building through either what is disclosed or by virtue of disclosing itself. But there are also potential downsides, such as costs of a competitive nature related to divulging proprietary information or legal costs or consequences related to alleged inaccurate or incomplete information. However, and this is key, whether the costs or benefits of disclosures prevail in managerial decision-making depends on the cultural context. For example, HHE argue that reputation building (a benefit) is more important in "individualistic" societies, whereas reducing risks (related to competitive advantage) and costs (such as legal costs) prevails in "uncertainty-avoidant" societies (as understood by the national culture dimensions and definitions of Hofstede – see Hofstede 2001, for example).

HHE then formulate hypotheses about the predicted direct but also indirect effects of culture on disclosures. For example, in terms of the direct effects, they predict that individualism vs. uncertainty avoidance, respectively, will be positively vs. negatively associated with the amount of information on internal controls firms voluntarily disclose in their annual reports. They also expect indirect effects through the channel of investor protection because the latter has been shown to be positively associated with disclosure. On the basis of this expectation, then, one could argue that protection of shareholder interests might be particularly relevant in settings where "individualistic" managers may be especially prone to "agency problems", thus calling for more disclosures. All told, then, the basis for a positive mediating effect of investor protection between individualism and the amount of information on internal controls firms voluntarily disclose in their annual reports seems reasonable.[5]

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[4] To repeat, note how this pertinently "exploits" the *mandatory* vs. *discretionary* variation of accounting disclosures across jurisdictions (countries).

[5] I am less persuaded by the arguments HHE proposed for a negative mediating effect between uncertainty avoidance and disclosures, suggesting that, at the country level, investor protection will be low in uncertainty-avoidant societies "because members of these societies avoid dealing with uncertainty, which is consistent with giving power to authorities who control uncertainty and with perceiving conflict in the corporation as unnatural" (p. 362). But could one perhaps alternatively argue that disclosures might reduce uncertainty? Either way, at the conference, I called this type of reasoning sometimes somewhat stretched or rather of an "armchair" nature, indicating my preference for crisper, firmer connections among variables.

HHE test these hypotheses in a sample of 4,370 firm-year observations for 1,559 firms from 29 countries during the years 2005-2007. The results largely support their expectations. HHR is a fine study overall, and there are others of the same type, such as, for example, the study by Kanagaretnam, Lim, and Lobo (2014) in *The Accounting Review* that, using data from 70 countries for the years 2000-2006, argues and finds that individualism is negatively/positively associated with conservatism and risk taking, respectively, whereas uncertainty avoidance is positively/negatively associated with conservatism and risk taking, respectively. Both articles, as mere examples of studies in this line of research, develop compelling arguments as to why one would expect a relationship between culture and the respective accounting practices observed.

So what then is there to be potentially, but constructively, critical about? One possible critique is that these studies tend to perhaps but undoubtedly unintentionally overstate their implications. For example, HHE state that "many of the calls for improved internal controls, as well as enhanced reporting on these controls are characterized by the view that there is an optimal way of developing such controls [...] but our study shows that differences in observed corporate governance practices, such as the disclosure of information on internal controls, are influenced by cultural differences" (p. 373). That is correctly stated, but it does not take into account that, notwithstanding, the R^2 is typically rather low; that is, cultural difference explain only a small fraction, albeit a significant fraction, of the observed variation in the accounting practices. That is undoubtedly incrementally welcome as long as it sufficiently cautions for possibly bigger effects (for which of course any well-designed study tries to effectively control).

For example, when there are shocks to the system, such as the one surrounding the global financial crisis, then "cultural sensitivities" of, say, the regulator's interventions may not count for much or be relegated as a lesser concern.[6] In periods of shocks to the system, one can easily imagine regulators to "not care much" about being "culturally correct". And they may even have a point, taking me to a related concern in terms of the implications of this type of research, namely that regulation should not always play to what is *wanted* (i.e., culturally adjusted) but instead to what is *needed*. Maybe the citizens of Elbonia are rather culturally uncomfortable with more transparency, preferring muddy reporting, but it might well be more transparency that they (or their society or corporate governance systems) need.[7]

This is why I find studies of the type like the ones briefly referenced (but not singled out) to be commonly "descriptively interesting" but rather "prescriptively weaker" (or less consequential). Nonetheless, these studies often are prescriptive

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[6] This makes it interesting as a further opportunity to study the effects of such shocks, which I discussed elsewhere (Van der Stede 2011; see also Wagenhofer 2016).

[7] Elbonia is a fictional country in the comic strip Dilbert universe, whose major commerce is mud.

to a degree in their statement of implications. For example, HHE state that "*international calls for uniform best practices* regarding disclosure of information on internal controls may therefore *turn out be counter-productive*, as there may likely be no uniform approach to tackling accounting scandals and corporate failures, *given the fact that variations in culture affect actual disclosure practice. These cultural variations should be considered seriously when attempting to develop or update codes of corporate governance to improve internal control disclosures and protect investors' interests*" (p. 373 – italics added).

Fine, but is it just about the quantity of disclosures (in this case)? Granted, HHE's findings suggest that voluntary disclosures are more prevalent in individualistic countries. But can one trust their quality? Could equally in individualistic countries the amount of disclosures be used to obfuscate? Worse, might aside from the "approach to tackling accounting scandals and corporate failures," the propensity of accounting scandals and corporate scandals itself also be culturally determined? Quite likely, I reckon. And if this is so, then clearly "better" disclosure (rather than just "more" disclosure) might not be what is wanted, but very much what is needed, because otherwise "culturally adjusted" amounts of disclosure may just be used to manage the reported results. The counter-productive effect, then, is not in the practices being culturally ill-attuned; it is in the practices being perverted to accounting outcomes that are themselves culturally determined.

To summarize then, I find studies like the ones I chose to briefly discuss both interesting and competently executed, indicating that the effectiveness of any of a number of accounting or other practices is affected by their cultural fit. Both the arguments and evidence are compelling enough to accept this. That said, the variance explained by culture's effects are typically quite small, and thus when a cure is needed to remedy a given disease (e.g., corporate failure), any side effects stemming from cultural insensitivities may well not be the most pressing. As a matter of fact, cultural consistency may well not be the concern, but rather a source of corporate failure, and thus, something to overcome.

The oft-implied prescription, then, that *uniformity* of a practice or remedy (such as a uniform "global" regulation or a "company-wide" control system in a multi-national firm), is *counter-productive* in the face of nationally cultural diversity should not be uncritically taken as an entirely accepted prescription.

IV. THE "COSTS" OF NON-UNIFORMITY

But one should not only be concerned about the potential costs (stemming from possible counter-productive effects) of *global uniformity*. There are, of course, also costs of *situational adaptation*. I examined the tradeoffs or tension between these forces as a follow-on from my dissertation research (Van der Stede 1997) focused on management control systems in large, diversified corporations headquartered in Belgium but with business units (BUs) around the world. This

happened to offer a unique setting in which to test the extent to which variations in national culture at the BU-level of multi-business firms that operate internationally initiate adjustments in the corporate management control systems (MCSs) to fit local circumstances (Van der Stede 2003). In other words, this allowed to examine the contest between one type of BU contingency (national culture effects) relative to firm-level effects (corporate parent effects) on MCS-design.

In prior work, the “across entities” approach had been typically adopted, addressing whether the MCSs observed in different geographical locations are consistent with national culture predictions without consideration of possible corporate firm-level effects stemming from the parent company that controls the BU. Therefore, in my study, I adopted a “within firm” approach, addressing whether the MCSs observed in different BUs of the same firm vary with geographical location, and hence, are attuned to local national cultures, or instead are implemented (more or less) uniformly throughout the corporation regardless of national culture differences at the BU-level.

Examining the cross-section of all BUs first, I found evidence for a generally well-documented contingency effect of national culture across BUs. But when I brought corporate-level effects into the analysis, the results suggested that parent company effects on MCS-design dominated the effect from national culture at the BU-level. This finding suggested what I identified in the organizational literature as “intra-corporate isomorphism” or a force for intra-organizational homogeneity as indeed I reckon there is a cost to adapting MCSs to local national culture (or other) situational circumstances. Of course, not adapting management control systems (or other elements of organizational design) has a cost as well—that of potentially suboptimal human responses due to, among other things, likely cultural misfit.

The bottom-line, however, is that neither the costs and benefits of intra-corporate homogeneity, uniformity or “standardization”, nor the costs and benefits of local adaptation should be seen in isolation of one another, but where instead thoughtful consideration to calibrate both should be seen as essential to effective organizational design.

At the risk of over-stretching the idea, it stands to reason to suggest that what I referred to in the above as intra-corporate isomorphism using “organizational speak” is similar in spirit to the notion of convergence in “regulation speak” as used by standard setters who also are facing similar tensions between uniformity, convergence or standardization vs. local standards, or something in between like carve-outs from the global standards. But to suggest that global, uniform approaches (to corporate governance or other issues) are counter-productive (as discussed in the prior section) clearly cannot be the full answer. I therefore see the “tension” between global uniformity and situational

adaption as a pertinent puzzle with wide applicability worthy of further examination.

That this idea has wide applicability merely states the obvious. For example, for a recent study in finance in the *Journal of Financial Economics* teasing out country, market, and firm effects on stock price synchronicity or the extent to which stock prices move together, see Eun, Wang, and Xiao (2015), aptly titled "Culture and R^2". Without going into any further detail of this study, but instead to selectively use just one phrase from their article to illustrate, the study suggests that "trade and financial openness weakens the effect of domestic culture on stock price co-movements" (p. 283), which takes me to the next section.

V. THE "HOMOGENIZING" EFFECTS OF GLOBALIZATION

My key point so far is that there is evidence of variation in practices (of many kinds) across countries, but that these should be held against the light of market/institutional, firm/organizational, and individual/human variations, where if I may re-emphasize, looking at these effects *together* is likely to offer the greatest potential insights, with the added bonus of having built *tension* into the studies that generate these insights.

But how will this variation across countries fare given presumably ever greater globalization (against which recently we have begun to see some political and/or popular pushback)? After all, globalization typically implies a *reduction in variation* due to the "process of international *integration* arising from the interchange of world views, products, ideas and other aspects of culture" (en.wikipedia.org/wiki/Globalization; see also Ball 2016). I doubt, though, that variation will be reduced to zero (to put it in extreme terms).

But despite this essay being about "global" (management accounting) research, I hasten to admit that globalization is *not strictly necessary* for (management accounting) research opportunity, as long as robust (management accounting) research is done everywhere and anywhere pertinent, and is disseminated (i.e., published), where the latter – publication – does not depend on the issue being global *per se* or at all, but instead and foremost on the examined issue to be *theoretically* informative and generalizable.[8] In other words, a relevant and theoretically informed and generalizable study may or may not be "global". But when there is a global aspect to the study, it must be pertinently motivated to be relevant (see, for example, Balachandran, Dossi, and Van der Stede 2010).

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[8] For the avoidance of doubt, I am speaking here about scholarly, academic studies, yet allowing for "theory" to be broadly conceived (as discussed, for example, in Merchant and Van der Stede 2006).

As such, studies examining “local issues” are important to inform non-country specific theory (i.e., *most* theory). By extension, studies examining “global issues” must have a theoretical basis for doing so, such as all the studies that I used above as illustrations indeed did. In that sense, “global” or “country” (or “national culture”) is not different from any other elements of the so-called “institutional setting” such as industry, say, where studies sometimes ignore, sometimes control for, but also sometimes explicitly exploit that specific institutional factor (see, for example, Messner 2016; Van der Stede 2016).

In terms of exploiting national culture, then, globalization of course offers additional opportunity because it introduces many of the tensions I alluded to in the prior sections, even though, or perhaps because, it is a homogenizing force. This allows to test the limits to isomorphism or standardization, but it also offers the opportunity for comparative studies of practices or regulations, say, across countries, especially following a *global* crisis such as the global financial crisis of late.

Indeed, the *global* financial crisis forced everyone in different countries or regions to respond (such as regulators and banks, say), but not everyone responded in the same way, thus allowing to study variation in responses to an otherwise common (exogenous) shock (see, for example, Van der Stede 2011; Wagenhofer 2016). Equally, some proposed remedies were meant to be global (such as some responses by the G20 group of countries), whereas others were meant to roll back or curtail the effects of globalization (such as, for example, various bank capital regulations aimed at ring fencing capital to certain regions, countries, or types of transactions).

VI. The “Power” of Empirical Design

Even if there are varied responses or diverse proposed regulations coming out of various countries to address an otherwise quite common corporate governance (or other) crisis or failure, the researcher quickly “runs out of countries” to allow sufficient sample size for a maximally robust comparison (even when employing a qualitative approach).[9] This is a weakness or limitation of many cross-country studies. So how then can the inevitably small number of countries available for study be leveraged to obtain the most robust analysis of cross-country

[9] I am not making a point here in a strict “method” (i.e., econometric or statistical) sense, but rather in a broader “methodological” or conceptual “study design” sense—the point being about exploiting maximum variation for the cross-country examination in question through carefully selecting the “setting” (or “sample” although, again, in a broader than merely statistical sense).

effects? I obtain the inspiration for my answer to this question from the logic underlying the “fuzzy set” comparative method.[10]

Let me illustrate this with a fictitious example from the corporate governance sphere. Assume the researcher were to observe the prevalence of, or have reason to study, the following four management accounting or corporate governance-related practices: (1) the financial literacy (FL) on boards; (2) board independence (BI); (3) the extent of information disclosure (ID); and (4) compensation plans (CP). All four practices are often the target of corporate governance reform because they have been seen as more than merely accessory to some of the worst corporate scandals or failures (see, for example, Erkens, Hung, and Matos 2012).

But to what extent are these practices or remedies *necessary* for good governance? To what extent are they *sufficient*? Or, does any one of them *not matter* for good governance in isolation but instead *depend on* the presence of other practices? For example, some banks with directors who were well informed (high FL) about finance performed no better than know-nothings (low FL). And some banks with independent boards experienced severe losses whereas others with dual directorship, say, suffered far less damage.

Using Boolean notation (where • means “and” and + stands for “or”), some possibilities among the four practices listed include:

1) Financial literacy *alone* is always associated with whatever “good” outcome (i.e., FL → outcome). If that is the case, then financial literacy is necessary and sufficient.
2) But maybe there is a case where financial literacy *and* board independence are associated with the good outcome (i.e., FL • BD → outcome). In this case financial literacy is necessary but not sufficient (because board independence is also required to presumably produce the desired outcome).
3) In a third case, financial literacy *or* board independence are associated with the good outcome (i.e., FL + BD → outcome). In this case financial literacy is sufficient but not necessary (because board independence instead of financial literary also appears to produce the desired outcome).
4) In yet another, fourth case, financial literacy *and* board independence, *or* information disclosure *and* compensation plans, are associated with the good outcome (i.e., FL • BD + ID • CP → outcome). In this case financial literacy is neither necessary (because there is another way that does not include financial literacy to the desired outcome; i.e., ID • CP) nor sufficient (because without board independence, financial literacy appears to not produce the desired outcome either).

[10] For a detailed treatment of the actual “fuzzy set” comparative method alluded to here in a conceptual sense, see, for example, Ragin (1989, 2000, 2008) and Fiss (2011).

Why am I walking you through this example (which obviously does not even contain nearly all the possible combinations among these four practices)? Clearly not as a primer to the econometric use of *fuzzy set qualitative comparative analysis* (fsQCA), which I and others have applied in other management control research (Erkens and Van der Stede 2015; Bedford, Malmi, and Sandelin 2016). Instead I am getting into this conceptually here because regulation is commonly fixed or set at the country level. Given that one could study a random or convenient set of countries (such as comparing banks in Denmark and Iceland, for example), I am instead urging researchers to perhaps try and identify countries where different combinations of a given set of practices of interest have been tried, regulated, or mandated in order to potentially get *more power* from an inevitably small number of countries to compare. And when I say “more power” I didn’t merely mean statistical power, but rather power by virtue of study design, which as an added benefit will help motivate the study in terms of why you chose the countries that you did as particularly pertinent for the research question at hand.

This is not to suggest that there is no room for comparative national culture studies of the more exploratory type, but then, in the absence of a potentially more powerful selection of specific (fuzzy) sets of countries to analyze and compare, it may be especially important to try and hold other elements of the setting constant as much as possible. One example of this approach is the three-part study by myself and various co-authors of incentive practices (the same focus in each of the three studies) in the automobile retail sector (also the same in all three studies) in the United States (Gibbs, Merchant, Van der Stede, and Vargus 2004), The Netherlands (Jansen, Merchant, and Van der Stede 2009) and China (Merchant, Van der Stede, Lin, and Yu 2011).

In the two “replication” studies in The Netherlands and China,[11] respectively, our aim was to examine the extent to which incentive compensation practices in the auto retail industry and their effects are similar across countries given that, as argued in an earlier section above, theory provides conflicting predictions as to whether international practices should reflect a “situational best fit” or “global best practices”. And so we adopted an open, exploratory mind about what we might find, essentially being agnostic about whether we would observe “convergence” or “divergence” of practices. Indeed, the literature allowed to conjecture either way.

Arguments and evidence suggesting an international *divergence* of incentive practices include cultural differences (such as differences in the beliefs about the role of corporations, variations in long-term vs. short-term managerial orientations, and differences in other Hofstede-type national culture factors, such as masculinity and power distance), as well as institutional differences (such as differences in the terms of employment, experience with incentive systems, and

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[11] For a more expansive discussion of the “replication options” that international accounting research offers, see Ball (2016).

income tax rates, among others). Equally, there are arguments and evidence suggesting a plausible international *convergence* of incentive practices. These include "globalization" that, as discussed above, might lead to the adoption of global "best practices" (spread by global compensation and human resources consultancies), as well as conceivably innate, place-invariant human traits (such as those rooted in motivation theory in psychology or agency theory in economics). Or maybe there is a third possibility, namely that differences exist, but they are too small or too inconsequential to be detectable or they are of secondary order and dominated by other, more consequential, primary determinants of the observed practices, such as concerns to provide competitive pay in the respective labor market.[12]

All told, the balance of our evidence suggested significant differences in incentive compensation practices across these countries, indicating that "national setting" does matter. However, the "why" for these differences is less well understood, and speaking to it had to be done with caution given our exploratory study design. But the two replication studies in The Netherlands and China did suggest some interesting, perhaps unexpected, but certainly less well-studied factors for the differences, such as those related to the institutional setting (e.g., the lesser status of variable pay for mortgage applications in The Netherlands). Large sample studies would not normally pick up such differences, but they have other features to which strengths they should play.

Combined, then, across studies in a variety of purposively and carefully chosen international settings, using different methods, and drawing on or trying to inform various theories, much still remains to be learned from fruitfully shedding light on the "global" in (management) accounting research, not only about its determinants and its effects, but also as a converging or diverging force by itself, neither of which should be taken for granted and neither of which produces only benefits without costs, thereby creating interesting "tensions" for the researcher of global (management) accounting issues.

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