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The Design and Use of Management Control Systems in A Chinese Multinational Corporation: A Neo-Institutional Perspective

by

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ABSTRACT

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THE DESIGN AND USE OF MANAGEMENT CONTROL SYSTEMS IN A CHINESE MULTINATIONAL CORPORATION: A NEO-INSTITUTIONAL PERSPECTIVE

Xinxiang Li

This study investigates the role of management control systems (MCS) in a Chinese multinational construction company (International GS). In particular it explores how MCS rules and mechanisms for overseas operation (e.g. budgetary control, cost control, performance measurement and incentive system and localized management) are designed in the case company's head office in China (GSLZ), and how these formal rules and mechanisms are implemented in one of its overseas subsidiaries in Ghana (GSJN). In-depth semi-structured interviews were carried out with top and middle managers in both research sites, alongside reviews of documents. A neo-institutionalist theoretical framework, drawn from Scott's (2013) theoretical concepts of regulative, normative and cultural-cognitive institutions, are combined with the notion of contextualization (Tsui, 2006, 2007) to interpret and analyse the case study findings.

Findings from the head office show how regulative and normative institutional pressures conflictingly and simultaneously circumscribed the company's MCS design. Whilst the MCS rules were designed in accordance to regulatory pressures and in particular as a result of the government's pursuance of a 'marketization' policy, it also revealed an authoritative control mode emphasising centralization, compliance and military approaches. The study of MCS implementation further showed that although rules were imposed in the Ghanaian subsidiary, practical variations emerged as a response to the contradictions in the setting of MCS rules and mechanisms, and localized management control practices were also established to adapt to the local political and market needs. However, this study further reveals that a specific logic (i.e. 'policy orientation') pervaded the Chinese managers' design and use of MCS, leading to a problematic role of MCS in practice and a failure to achieve the objectives of localized management. Informed by Scott's idea of a cultural-cognitive institutional order, this study further contends that the Chinese managers' specific logic arose because their cognition were

shaped by, and reflected, certain intrinsic notions derived from the interactions between regulative and normative institutions. Furthermore, this study argues that the unique Chinese culture, as the fundamental institutional logic, provides the infrastructure on which not only beliefs, but norms and rules rests. Two characteristics of Chinese culture (i.e. paternalism and *Guanxi*) have been identified to explain the rationalities behind the problems of MCS design and use in the case company.

Due to the increasing presence of Chinese multinational corporations in emerging and less-developed economies, this study aims to offer new insights in the study of MCS development and dissemination in non-western contexts. Moreover, the particular focus on a construction company brings new evidence since this sector, in spite of its size and importance in modern economies, rarely features in management accounting and control research. Lastly, this study contributes to extant cross-cultural accounting work. Whilst recent work remains influenced (and limited) by Hofstede's notions of national culture (Baskerville, 2003; Joannides, Berland and Wickramasinghe, 2010), this study highlights how the underlying facets of Chinese culture are relevant to the design and use of MCS in Chinese multinational corporations.

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DECLARATION OF AUTHORSHIP

I, Xinxiang Li, declare that this thesis and the work presented in it are my own and have been generated by me as the result of my own original research.

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I confirm that:

1. This work was done wholly or mainly while in candidature for a research degree at this University;
2. Where any part of this thesis has previously been submitted for a degree or any other qualification at this University or any other institution, this has been clearly stated;
3. Where I have consulted the published work of others, this is always clearly attributed;
4. Where I have quoted from the work of others, the source is always given. With the exception of such quotations, this thesis is entirely my own work;
5. I have acknowledged all main sources of help;
6. Where the thesis is based on work done by myself jointly with others, I have made clear exactly what was done by others and what I have contributed myself;
7. None of this work has been published before submission.

Signed: ....

Date: ....

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Xinxiang Li

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Definitions and Abbreviations

CCP	Chinese Communist Party
COVEC	China National Overseas Engineering Corporation
CPA	Certified Public Accountant
CPMC	Construction Project Management Committee
CRS	Contracted Responsibility System
CVP	Cost-Volume-Profit Analysis
FJV	Foreign Joint Venture
IBA	Internal Business Accounting
MA	Management Accounting
MAS	Management Accounting System
MCS	Management Control System
MEMS	Modern Enterprise Management System
MNC	Multinational Corporation
MOC	Ministry of Commerce of PRC
MOHURD	Ministry of Housing and Urban-Rural Development of PRC
NCDR	National Commission for Development and Reform, PRC
NIS	New Institutional Sociology
OFDI	Outward Foreign Direct Investment
OIE	Old Institutional Economy
ROI	Return on Investment
SASAC	State-owned Assets Supervision and Administration Commission, PRC
SOE	State-owned Enterprise
SPC	State Planning Commission, PRC
UN	United Nations
WTO	World Trade Organization

Chapter 1: Introduction

1.1 Research background

Since Robert Anthony's path-breaking work in 1965 which firstly introduced a conceptual structure to management control (Anthony, 1965), management control systems (MCS) has been rapidly recognized as an important domain in accounting research. While increasing attention has been paid to the planning and controlling functions of accounting in the past half century, the definitions, scopes and theories of MCS were continuously evolved and improved, by which MCS has been acknowledged as the significant player in organizations to achieve expected organizational strategies, objectives and performance (Macintosh and Quattrone, 2010; Merchant and Van der Stede, 2007; Langfield-Smith, 2006; Chenhall, 2003).

The conceptualization of MCS in current research has increasingly broadened which led to various yet encompassing definitions of this very theme. Besides the conventional cybernetic and formal controls such as budgets, financial and non-financial measurement systems, a broad scope of organizational activities has also been included into this research domain, whereby MCS was defined as a combined system of mechanisms to provide information for decision-making (Chenhall, 2003), to support the implement of strategies (Simons, 1995; Langfield-Smith, 2006), and to direct organizational participants' behaviours (Malmi and Brown, 2008; Zimmerman, 2001). While the development course of MCS research will be explicitly reviewed and discussed in Chapter 2, the main point here is that the broadened definition and scope of MCS indeed reflect the societal feature of MCS (Parker, 2012; Baldvinsdottir *et al.*, 2010; Scapens, 2006; Baxter and Chua, 2003). It is not only because that an increasing number of researchers have recognized the importance of subjective and informal mechanisms such as clan, cultural and personal controls in the development of MCS (Berry *et al.*, 2009; Malmi and Brown, 2008; Chenhall, 2003). But more importantly, rather than being purely technical tools, many researchers regard MCS as socially constructed artefacts, by which managers' perceptions and activities within the design and use of

MCS are particularly stressed as they are interacted with the broader societal and cultural factors implied in the context of organizations (Ahrens and Chapman, 2007; Vollmer, 2009; Vaivio, 2008).

While identifying MCS as societal artefacts provides greater opportunities for investigating the relationships and interactions between contextual factors and MCS development, contextual MCS research has further been spurred on by the accelerated progress of global economy and the concomitant development of multinational corporations (MNCs) in recent years. Thus, researchers have gradually broadened their attention to a global view, in order to investigate the development of MCS in different national settings (Bhimani, 1999; Baxter and Chua, 2003; Quattrone and Hopper, 2005; Hopper *et al.*, 2007). This research perspective is especially manifested in the study of the diffusion and adoption of MCS in emerging and less-developed countries (Hopper *et al.*, 2009; Alawattage and Wickramasinghe, 2009b; Alawattage *et al.*, 2007). In other words, while modern MCS mechanisms and theories are mainly derived from western and developed countries which generally tend to embrace Anglo-American managerial notions, research in those non-western contexts, as they would be underpinned by different ideas and notions, are expected to offer some novel yet comparable insights for the development and operation of MCS in current time.

Launched in 1978, China's economic reform has been acknowledged as the most remarkable event in contemporary China's history (Xu, 2011). This reform progress, along with the concomitant improvement of economic, political, and societal systems and institutions, not only significantly impacted on Chinese people's life and ideas, but also made this country become one of the decisive players in current globalized economy. China's global influence was mainly strengthened from 1992 as the 'open-up' policy was proposed to break China's political and economic seclusion from capitalist countries. This reform greatly improved the communication between China and rest of the world, facilitated the introduction of notions and approaches from western liberal markets, and also loosened the restrictions of foreign investment and operation in the domestic market. From the perspective of MCS research, changes in the economic environment provided increased access for empirical studies to be conducted in the Chinese context. In this regard, increasing research focus has been paid to China in the past two decades, by which researchers gradually realized that this country, because of its political and economic systems, societal environment, history and culture, creates a unique context.

Specifically, because of China's state owned enterprise (SOE) reform and the concurrent partnership with foreign joint ventures (FJVs) within the economic reform progress, existing studies have mainly focused either on the diffusion and adoption of MCS in the restructuring process of Chinese SOEs (Skousen and Yang, 1988; Bromwich and Wang, 1991; Scapens and Yan, 1993), or compared the effectiveness of MCS between FJVs and their Chinese partners (Firth, 1996; Xiao *et al.*, 2004; O'Connor *et al.*, 2004; O'Connor *et al.*, 2006). Despite the different research settings and the less overlapped empirical evidences, one common argument of these studies referred to that they all identified the uniqueness of Chinese contexts (O'Connor, 1995; Chow *et al.*, 2000; Chow *et al.*, 2007; Fleming *et al.*, 2009), and some of them even suggested the contextual differences may lead to the development of distinct MCS in China (Scapens and Yan, 1993; Firth, 1996). However, most of these studies attempted to conceptualize China as a passive receiver of western notions and systems, by which researchers limited their concerns to the adaptation of western MCS in, or a resistance to MCS by, Chinese organizations (Yan and Gray, 1994; Tang, 2000; Lin and Yu, 2002; Westrup and Liu, 2008; Chen *et al.*, 1997). Paradoxically, in spite of highlighting the unique political, cultural, social and economic context of China, most of previous studies appeared to undervalue those contextual factors, thereby ignoring how the underlying 'Chinese dynamics' may impact on, or even dominate some aspects of MCS development in China and beyond.

This underlying 'western-predominated' research assumption may no longer be applicable to current Chinese MCS studies, as China is increasingly participating in international business and operation in recent years. The most compelling fact refers to the growth trend and scope of China's outward foreign direct investment (OFDI). China's OFDI has exceeded 100 billion US dollar by the end of 2014, which covered more than 6000 overseas enterprises in 156 countries and regions of the world (statistical data from the Ministry of Commerce of the PRC, 2015). These figures plainly show that China has become the third biggest source of investment outflow into the world, but more importantly, underlying the numbers is the rapid development of Chinese multinational corporations. Particularly, since China became Africa's largest trading partner in 2013, Chinese MNCs have achieved 'near monopoly' positions in many African countries' telecommunication, mining and construction industries (Grimm, 2014; Wang and Elliot, 2014). Recent studies in various research domains in terms of international business and management, policy research and human resource management have paid increasing attentions to the emergence of Chinese MNCs, whereby authors either explored in which extent this novel globalized power impacted on the specific African contexts (Xing *et al.*, 2014; Kernen and Lam, 2014; Cooke, 2014; Wang and Elliot, 2014; Grimm, 2014), or investigated whether it led to unique patterns and approaches which are differed from western modes of MNC management and operations in general (Huang, 2011; Quer *et al.*, 2012; Cui and Jiang, 2012; Mahlendorf *et al.*, 2012; Zhu *et al.*, 2014; Child and Tse, 2001). Despite the different research views and settings, those studies somehow shared a consensus that China's MNCs, as they were underpinned by different political, cultural and societal contexts, revealed unique forms and discourses of management, strategy and policies. In this respect, recent studies argue that with the on-going growth of Chinese MNCs, these new notions and ideas may well challenge extant western models of MNC development (Zhu *et al.*, 2014; Tian and Slocum, 2014).

1.2 Research objectives and motivations

The rapid development of Chinese MNCs highlights the need for researchers to change their attention from identifying China as a passive recipient of western adoptions to envisaging its activities in the globalized economy. Motivated by this shift of research focus, this study aims to investigate the significance of the 'Chinese dynamics' in the way of designing and implementing MCS in Chinese MNCs, by which it expects this alternative yet insightful perspective would facilitate a more comprehensive understanding of the MCS development in current China (Dong and Liu, 2010; Quer *et al.*, 2012; Mahlendorf *et al.*, 2012). While most existing MCS studies in China are still embraced by the idea of 'western predomination' (Yan and Gray, 1994; O'Connor *et al.*, 2004; Chalos and O'Connor, 2004; Li *et al.*, 2013; Huang *et al.*, 2015), this research seeks to shed light on MCS development in China.

More importantly, recent studies in Chinese MNCs have greatly recognized China's political, societal and cultural context as one that underpins the different path of development adopted by Chinese MNCs (Grimm, 2014; Wang and Elliot, 2014; Child and Tse, 2001; Quer, Claver and Rienda, 2012). For example, studies argued that the explosive presence of Chinese MNCs in African countries was supported by state encouragement and financial support (Grimm, 2014), by which MNCs' strategy and decision-making were greatly consistent with governmental activities and political instructions (Wang and Elliot, 2014), and their operation and management were also bent to the institutional changes of state controlled ownership and insider control (Huang, 2011). From the perspective of managerial practices, cultural distance and the Chinese Confucianism ideas have been emphasized as the crucial factors which greatly influence managers' activities and perceptions of local management, and which is especially manifested in their choice of host country for OFDI (Quer, Claver and Rienda, 2012; Cui and Jiang, 2012), workforce localization (Kernen and Lam, 2014), inter-organizational personnel management (Xing, Liu, Tarba and Cooper, 2014) and expatriate human resource management (Huang, 2011). Therefore, while this study identifies Chinese MNC as the promising setting for MCS research, it is further motivated to explicitly investigate the Chinese contextual factors and explain how these factors impact on and interact with the MCS development in Chinese overseas operations.

While China's rising economic position and the activities of Chinese MNC have been recognized as an important motivation for studying MCS in the Chinese context, from the perspective of MCS research this motive is also supported by the exhortation to emphasize the social aspect of MCS, the inclusion of social and cultural mechanisms into the MCS definition, and the interactions and inter-connections between managers' activities and cognitions, the use of MCSs and organizational contexts (Chenhall, 2003; Langfield-Smith, 2006; Baxter and Chua, 2003, Berry, Coad, Harris, et al., 2009, Scapens, 2006). An increasing number of researchers have appreciated the broadened definition and scope of MCS, because identifying MCS as a socially constructed artefact may develop an integrative yet in-depth understanding of MCS development under more complex organizational structures and environments – a pertinent issue for international MCS research. In other words, the national specificities, as the combination of one country's various facets of 'context', would lead to different perceptions to MCS design and use, and also result in unique mechanisms and practice variations.

Unlike the theorization and conceptualization aspects which showed novel yet insightful ideas in recent years (Malmi and Granlund, 2009; Baldvinsdottir, Mitchell and Nørreklit, et al., 2010), empirical studies in contextual MCS still monotonously relied on traditional approaches and lagged behind in terms of theoretical development. More precisely, the prevalent idea of 'western predomination' made researchers to pay significant attention to the generalization of western MCS knowledge in the Chinese setting. For instance, contingency theory has still been greatly used in recent Chinese-related studies as it seems to provide a convenient framework for looking for the 'fitted patterns' between contextual factors, MCS adoptions and organizational performance (Jesmin Islam, 2012; Liu *et al.*, 2014; Tsamenyi *et al.*, 2011; Daniel *et al.*, 2014). However, several authors have criticized the fragmentary and contradictory findings in previous contextual MCS research[1], in which the empirical problems have been greatly ascribed to the self-limit of contingency approach and the concomitant positivistic view of MCS and contexts (Bhimani, 1999; Harrison and McKinnon, 1999; Chenhall, 2003; Langfield-Smith, 2006; Tucker and Parker, 2015). Motivated by this critical evaluation, this study attempts to challenge the dominant position of contingency approach in Chinese contextual research, in which the essential argumentation refers to that to a certain extent the underlying assumption of contingency approach (i.e. the 'economic rationality') may be incompatible with China's unique context. In this sense, this study stresses institutional explanations[2] as the alternative perspective for contextual MCS research in China (DiMaggio and Powell, 1983; Firth, 1996; Burns and Scapens, 2000; Lounsbury, 2008; Scott, 2008; Scott, 2013).

Apart from the political factors, previous studies have also considered the cultural aspects of the Chinese context. Similar to the research in other aspects of Chinese contexts, contingency approach has also dominated in those cultural studies. Hofstede's cultural value dimensions

[1] Explicit review and evaluation of contingency based MCS research will be given in Chapter 2 (section 2.2 to 2.5).

[2] Detailed discussion of institutional theories will be provided in Chapter 3 (section 3.2).

(Hofstede, 1980; Hofstede, 1984; Hofstede and Bond, 1988), as quantifiable contingent variables, have been presented as the embodiment of Chinese cultural values influencing MCS development in China. As a result, 'high power distance' and 'collectivism' have been particularly stressed as important factors explaining differences in MCS development in China relative to western countries (O'Connor, 1995; Chow, 2000; Chow *et al.*, 2001; Tsui, 2001; Cooper *et al.*, 2002; Douglas and Wier, 2005). However, while contingency approaches have been challenged in recent contextual MCS research, criticisms were particularly vocal from cultural studies because of the exclusively use of Hofstede's classifications, as researchers argued that this value-based cultural explanation was over-simplified to capture the in-depth, richness and complexity of culture and cultural diversity in MCS research (Bhimani, 1999; Harrison and McKinnon, 1999; Baskerville, 2003; Joannidès *et al.*, 2003; Wickramasinghe *et al.*, 2010). Based on those critiques, this study also proposes to pay extra attention to the cultural explanation of MCS in China. Inspired by Bhimani (1999)'s idea of the societal effects of culture, this study, rather than recognizing culture as a somewhat independent element, emphasizing it as a changing process during the social transformation. Thus, Chinese culture interplays with different perspectives of the Chinese context to constitute a national specificity. In this sense, this study adopts a holistic conceptualization of context to provide an alternative approach for contextual MCS research, which not only investigates the relationships between MCS development and multiple aspects of the Chinese context, but also considers how the design and use of MCS interacts with contextual factors.

1.3 Empirical research questions and methodology

Generally speaking, this study aims to investigate the role of management control system in a Chinese multinational setting. From a broader perspective of globalized economy, this study attempts to explore the 'Chinese dynamism' within the development and dissemination of MCS practices in different national contexts. Specifically, it mainly focuses on whether the unique Chinese context in terms of cultural, political and societal characteristics implicitly impact on, and interact with managers in the way of designing and using MCS practices. Based on this assumption, this study is proposed to answer two questions. Firstly, this study attempts to explore how the MCSs are designed in the non-Western, Chinese context and then are adopted and fitted in the multinational operations. Secondly, this study proposes to further investigate how Chinese contextual factors influence the process of MCS design and use.

This study adopted the qualitative paradigm and used case study as the research method (Humphrey and Lee, 2007; Yin, 2009), whereby a research case was purposefully designed to be consistent with the abovementioned objectives. In a nutshell, International GS – a Chinese multinational construction company with a former SOE background – has been selected as the research case, by which field research were conducted in two sites, namely GSLZ (its headquarter in China) and GSJN (one of its subsidiaries in Ghana). Interviews with managers in both sites are the main source of data, which is complemented by document reviews. The design of case study would facilitate this research to specify the broader research motives and objectives into empirical questions. Hence it is expected that the findings in the two case sites would provide some empirical evidence to fill in the research gap and to offer possible ways for future research in this domain.

In particular this study seeks to answer two empirical questions:

Firstly, how were MCS rules and mechanisms for overseas operation designed at the head office (GSLZ) of International GS in China? And subsequently how were these formal rules and mechanisms implemented in the subsidiary (GSJN)?

Secondly, how and in which extant the Chinese political, economic, societal and cultural context impacted on and interacted with managers' activities and perceptions, whereby resulted in the current status of MCS design and use in this company's different national settings?

1.4 Thesis structure

The remaining thesis has been organized into seven chapters.

Chapter 2 provides a detailed review of the literature. It starts from an overview of the development and conceptualization of MCS (Section 2.1), which is followed by a summary of important themes in contextual MCS studies in recent decades (Section 2.2 and 2.3). Contingency based studies, as the mainstream body in this research domain, will be explicitly discussed in these sections. The chapter then shift to a more specific aspect as Section 2.4 provides an historical review of MCS studies in the Chinese context. Based on the review, the next Section (Section 2.5) identifies limitations within this research domain, which include some critical arguments from an empirical and theoretical perspective.

Informed by the critical re-examination, two alternative approaches are introduced in Chapter 3 as the directions for future research, as well as the guidance and theoretical framework for this study. Specifically, while the idea of contextualization is proposed as the holistic treatment to context (Tsui, 2006), the institutional thinking from different schools of thought are also discussed, thereby leading to the identification of neo-institutional concepts (Scott, 2008, 2013; Lounsbury, 2008) as the theoretical framework for this study.

Chapter 4 elaborates upon the methodological issues within this research. It begins with the overview of using qualitative paradigm in MCS, which links with the discussion of societal feature of MCS, the criticisms of positivism and the problematical use of contingency theory. The next part of Chapter 4 refers to the design of case study, in which it explains the rationalities and processes of choosing the case study method, the selection of the case company, and the data collection and analysis methods. The last section discusses the theoretical framework for the case study, in which Scott's (2013) concept of 'three pillars of institutions' is elaborated as the underpinning of an integrated yet interactive institutional explanation of MCS design and use.

Chapter 5 seeks to contextualize the research case into the holistic picture of the Chinese context, for which an extended, in-depth description and discussion of the Chinese context is provided. From an indigenous viewpoint, Section 5.1 discusses Paternalism and *Guanx*i as two key characteristics of Chinese culture. While this study focuses on the societal effect of culture, attention is mainly paid to evaluate how these characteristics dynamically interact with other contextual factors in a managerial scenario. Section 5.2 elaborates the historical progress of economic reform in China as this reform significantly influenced the politics, economics and society in China. In order to contextualize the research case, the development of International GS is also incorporated into the review of economic reforms over time.

In Chapter 6, the main findings from the case study are displayed. The design and use of MCS in the case company are showed under four headings namely budget control, cost control, performance measurement and incentive system and localized management control. Based on the explanatory framework which is adapted from Scott's (2013) three pillars of institutions, the following chapter 7 discusses and analyses those empirical findings under the regulative, normative and cognitive-cultural perspectives of institutions. Chapter 8 summarises the key findings and insights from the case study, which is followed by a discussion of the empirical and theoretical contributions to current MCS research. Lastly, several research limitations and implications are illustrated as the possible starting point for future research.

Chapter 2: Literature Review

2.1 Controls in organizations and management control system

2.1.1 Control and organization

Control may be one of the most debated words in the contemporary world since it is part of "*central nervous system of the immense organism that we call 'society'*" (Macintosh and Quattrone, 2010, p4). This quotation reflects a sociological view of control, which suggests that rather than being a technical matter, the focus should be relating to the nature, design and implementation of control systems. While control systems are showed in various forms to exert specific effects on different aspects of our societies, the emergence, dissemination and use of these systems have been primarily associated to the role of the organization, since the latter is irrefutably represented the "*most prominent social institution of our time*" (Macintosh and Quattrone, 2010, p.38).

Controls in organization are generally defined as communicative actions used by one party to overcome resistance and exercise authority over others, thereby creating appropriate conditions for ensuring the desirable or predetermined organizational outcomes (Gossett, 2002). One of the most profound consequences of identifying controls as a kind of organizational activity was it opened discussions of a very important yet specific type of control within an organization, namely management control system (MCS). According to Macintosh and Quattrone (2010), the existence of MACS could be dated from far earlier than the rise of corporations, and always played "*an integral part of control systems attempting to govern and guarantee the survival and endurance of organizations and whole societies*" (p.4). However, the managerial and control functions of accounting have been more appreciated along with the emergence of large corporations in the early stage of the twentieth century. Accounting and financial methods have been recognized to play an essential role in support strategic decision making, which in turn help corporations overcome crises and maintain business activities. The importance and ubiquity of MCS is further manifested in current times due to the globalization trends, the wide spread of capitalist ideas and managerial thinking, and the expansion of transnational enterprises and consulting firms. In other words, while organizational activities and operations become increasingly complex and multifaceted due to the different contexts around the globe, accounting appears to behave as a common and principal language for controlling and managing organizations.

2.1.2 The emergence of management control

For a long period, the role of accounting within organizational control was overlooked as it had been solely recognized as technical (bookkeeping) artefacts aimed at preparing financial statements (Birnberg, 2011). Financial and cost accounting were not identified as an integral part of the planning and control function in an organization until Anthony presented his path-breaking work (Anthony, 1965; Birnberg, 2011). As one of the fundamental studies of management accounting, Anthony's (1965) contributions were mainly on three aspects. Firstly, he linked accounting with management by focusing on the users of accounting information rather than on the content of the information per se. In other words, accounting information was used by managers to assist them to make decision or achieve the goals of the organization. Anthony (1965)'s second contribution refers to the emphasis on the behavioural aspects of management accounting (Birnberg, 2011). He argued that while managers used accounting for carrying out organizational tasks, their behaviours were involuntarily influenced by the use of information, which in turn induced managers to act in a way to achieve their own goals and aligning the goals with those of organization. Herein the control feature of accounting systems was revealed as 'goal congruence' was expected to be achieved through the use of accounting information for direction, measurement and evaluation.

The last and arguably the most important contribution of Anthony's work was to identify and classify three levels of control within an organization, by which he not only stated the different control functions of accounting system within each level, but also proposed management control as the most subtle yet crucial element among these levels of control. More precisely, as the most complex and least structured process, strategic planning directed organizational objectives, the use of resources for achieving objectives and the policies for governing these resources. At this level, accounting functioned from a macro perspective by providing budgets plan and setting financial targets. In contrast, operational control, as the least complex and most structured process, focused on the effectiveness and efficiency of specific tasks, in which formulaic accounting solutions in terms of cost measurement and frequent financial reporting were more appropriate. The importance of management control was then manifested as it links between the aforementioned two levels by translating the strategic plans into operating activities - "*managers ensure the resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives*" (Anthony, 1965, p.27). While this definition stressed managers' communication and motivation with individuals at different levels of an organization, the economic aspects of accounting system were downplayed as Anthony argued that rather than deciding on a course of action, managers need to cooperate with others to implement the decision. This argument indicated that managers have the ability to use accounting information to achieve goal congruence. In other words, managers may not rigidly adhere to the plan as they are flexible enough to adapt their behaviour to changes in the environment.

2.1.3 Definitions and types of MCS

Conventional MCS

When Anthony's (1965) work revealed the great complexity and relevance of managerial controls within an organization, increased attention has been paid to MCS research and made this topic as one of the most debated one in recent decades (see reviews of Langfield-Smith, 1997; Otley, 2003; Van der Stede, Young and Chen, 2005; Chenhall, 2006; Malmi and Brown, 2008; Berry, Coad, Harris, *et al.*, 2009). However, as the preliminary study in the research domain, Anthony's (1965) definition of MCS was quite general and open-ended, which resulted in the development of various versions of MCS. While some of the definitions were partially overlapped and others were quite different from each other, how to define MCS and what should be included in MCS became a challenging question in MCS research.

Some researchers focused on Anthony's proposition of the behavioural aspect of control, whereby narrower definitions were developed to describe MCS as tools either restraining individuals' actions to be aligned with organizations' expectations (Merchant and Van der Stede, 2007; Abernethy and Chua, 1996), or facilitating goal congruence to be achieved (Flamholtz *et al.*, 1985; Fisher, 1995). Specific control types and mechanisms have also been identified within these narrow definitions. For example, general control and formal control are seen to constitute the whole management control system in Fisher's classification (Fisher, 1995). This idea was originally derived from Giglioni and Bedeian (1974) who proposed that control mainly acts via two types of mechanism within an organization namely direction of subordinates and cybernetic control. The former was described as programs or standard operating procedures applied in an organization, that guide individual and group actions to facilitate organizational objectives by influencing organizational structure, culture, socialization and human resource policies. In other words, this control mechanism aims to establish a set of perceived values, social norms and beliefs to be consistent with organizational objectives. If such a set of firm culture is strong enough to be shared by the members of the organization and is able to affect managerial activity, the organization could achieve its goal without any other control mechanisms. The direction of subordinates, or general control in Fisher's words actually reflected Anthony's opinion about the important role of non-monetary variables in management. However, since even Anthony (1965) appeared to suggest those dimensions are able to be incorporated into monetary terms (Birnberg, 2011), the effects of general controls in MCS have been greatly overwhelmed by financial accounting based controls (Chenhall, 2006), which in themselves constituted the main body of cybernetic controls (formal control).

Cybernetic control represents a set of measurement, monitoring and feedback processes within an organization. A complete cybernetic control system includes four elements. It firstly requires organizational targets, a measurement system to assess outcome and performance, monitoring systems to compare the actual performance and planned target, and finally feedback systems to provide information about variances for further corrective actions. In this sense, control not only means direction, but functions in a comprehensive way to influence every action involved in an organization. Correspondingly, the term 'formal control' specified which systems should be used in cybernetic ways (Reeves and Woodward, 1970; Otley and Berry, 1992; Green and Welsh, 1988).

For instance, formal control contains formal budgeting systems and incentive compensation systems. In the case of the former, different sub systems of budgeting reflect the different elements of cybernetic control. For example, budgetary 'participation' and 'achievability' state whether and to what extent managers participate in budget setting and to what extent the budget standard can be achieved. Budget revisions and slack could be an effective mechanism to compare and measure the actual performance and planned target. Incentive compensation system, in the latter case, is generally identified as a significant part of the feedback process. In many cases, the incentive compensation is linked to the budgeting system since financial incentives are given when budget is attained.

Broad scope of MCS

Although financial based formal controls have been advocated to play the central role in MCS, the effects of general control mechanisms (structure, socialization and culture) were unlikely to be overlooked as researchers realized that the latter always worked interactively to influence the operation and effectiveness of formal control system (Simons, 1995; Chenhall, 2003; Merchant and Otley, 2006; Malmi and Brown, 2008). For example, Chenhall (2003) stated that management control system has evolved from a formal, financially quantifiable information oriented system to a comprehensive one which provides broader information in terms of external environmental information, non-financial information, predictive information, supportive mechanisms for decision making, and informal social and personal controls. The broader concept of MCS thus seems to be in line with Anthony's opinion of the 'connective function of management control', by which a mechanism could be included within MCS as long as managers can actively use it for intra-organizational communication and motivation purposes.

Chenhall (2003) defined MCS from three layers of meanings. He argued a collection of financial based mechanisms such as budgeting and costing represents the concept of management accounting (MA). Then, management accounting system (MAS) is defined as the utilization of management accounting practices in an organization to achieve certain goals. Management control system (MCS), from a broader perspective, includes management accounting system and other controls in terms of personal and clan control. In this sense, MCS definition has evolved from a conventional view which sees MCS as a passive, financial-based assistive tool, to a broad sociological perspective which emphasized the activity and power of managers, as well as non-financial, subjective mechanisms.

While Chenhall (2003)'s definition insightfully introduced a broader realm of management control research, it is also quite a vague statement. Merchant and Otley (2006) argued that a broader conceptualization facilitated us to investigate the interactions within organization's controls since factors at both ends – from macro strategic development to micro learning processes, are included in MCS. However, the boundless concept may also put MCS study in danger that "*almost everything in the organization is included as part of the overall control system* (p.785)". Simons (1995) provides a possible way to relieve this ambiguity by emphasizing the use of information as the benchmark for MCS identification. Identified as a means to successfully implement organizational strategies, Simons (1995) defined MCS as "*formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities* (p.5)". Malmi and Brown (2008) commented that Simons' MCS definition set a boundary which distinguished control activities from decision making ones. In other words, only the information used for the purpose of maintaining or altering organizational activities could be recognized as control systems.

Two types of information use have been specified to constitute the core of Simons' 'levers of control'. While a diagnostic use of controls focused on the past and present of an organization by providing motivation and direction to achieve goals, the interactive use was aimed at the organization's future in terms of stimulating dialogue and organizational leaning. In this sense, any organizational activity which can provide information to be used in either of these two ways is recognized as part of the MCS. Moreover, introducing belief and boundary systems into the 'levers of control' further incorporated the strategic perspective in the MCS domain, by which many non-accounting formal mechanisms, such as organizational mission and vision statements, strategic planning, business code and rules and procedures are recognized as control systems. Therefore, this definition clearly stressed managerial activity in control processes and recognized a broader scope of systems into MCS (Malmi and Brown, 2008).

MCS as a package

Informed by Simons (1995) and Zimmerman (2001)'s advocacy to re-envisage 'control' (not 'decision making') as the primary role of accounting in an organization, Malmi and Brown (2008) describes management controls as activities of any kind to direct employee behaviour. Showed as a refined summary of previous important ideas of MCS definition, they proposed an analytic framework to comprise any qualified devices and systems within a MCS package (See Figure 1).

<table>
<tr><td colspan="7">Cultural Controls</td></tr>
<tr><td colspan="2">Clans</td><td colspan="3">Values</td><td colspan="2">Symbols</td></tr>
<tr><td colspan="2">Planning</td><td colspan="4">Cybernetic Controls</td><td rowspan="2">Reward and Compensation</td></tr>
<tr><td>Long Range Planning</td><td>Action Planning</td><td>Budgets</td><td>Financial Measurement Systems</td><td>Non-Financial Measurement Systems</td><td>Hybrid Measurement Systems</td></tr>
<tr><td colspan="7">Administrative Controls</td></tr>
<tr><td colspan="2">Governance Structure</td><td colspan="3">Organisation Structure</td><td colspan="2">Policies and Procedures</td></tr>
</table>

Adapted from Malmi and Brown (2008, p.291)

Figure 1 Management control system package

The idea of MCS as a package shares several similarities but yet distinguishes itself from each of the previous MCS definitions. While it identified cybernetic controls and reward and compensation systems as the important constituents of an MCS to achieve goal congruence or motivation, planning controls have also been included to manifest the effects of strategic systems on behaviours. However, unlike Simons (1995) who exclusively focused on formal and information-based routines, Malmi and Brown (2008) argued individuals' behaviours are also influenced by certain informal factors or systems without the necessity of information exchange. In this sense, a belief system (in Simons' conceptualization) may not be exclusively determined by organization's values, but also influenced by other cultural characteristics such as symbols, clans or personnel controls (Ouchi, 1979; Schein, 2010; Merchant and Van der Stede, 2007). Another unique feature of the MCS package is that it recognizes administrative systems – treated as contingent variables by many accounting researchers - as a part of MCS. Hence, Malmi and Brown (2008) argued that mechanisms such as organizational structure and design, its internal governance structure, and the process of policies and procedures can be used and altered by managers within the process of control.

As one of the more recent work on MCS conceptualization, the idea of MCS package represents a great change in understandings of MCS in the recent ten years (Bedford and Malmi, 2015; Grabner and Moers, 2013). Firstly, it suggests a quite broad yet bounded definition of MCS. While the baseline of 'directing employees' behaviours' was applied to facilitate a clearer understanding of MCS, researchers are given enough flexibility to investigate a single device or a combination of mechanisms in the control package of an organization, which is especially viable in the current situation as organizations are increasingly inclined to use various controls for achieving objectives under the competitive and globalized contexts (Cooper and Ezzamel, 2013; Otley, 2001; Baxter and Chua, 2003). Secondly, while planning, cybernetic, and reward and compensation are showed as the principal controls within an organization, their operation depends on the structures created by administrative controls. The cultural controls are, as the broadest yet most subtle ones, "*slow to change, thus, and providing a contextual frame for other controls*" (Malmi and Brown, 2008, p.295). Therefore, the three layers of control typology suggests controls mechanisms are intertwined in an organization, and also imply that the same mechanisms could be used differently as managers from each organization are influenced by its own context. In this sense, field studies would become an important research method to investigate how MCS are designed and used in specific contexts. Last but not least, while culture and administrative controls are recognized as part of the broad aspect of MCS, the idea of management control as package would be pertinent in the Chinese MNC context since factors such as Chinese culture, government-led institutional change, political support and intervention have been repeatedly mentioned to overwhelm the company's spontaneity in multinational operation and management (Child and Tse, 2001; Grimm, 2014; Cooke, 2014).

2.2 MCS and organizational contexts

It is fair to state that the debate on the definitions, types and uses of MCS reflected its increasingly important role in achieving organizational objectives. While people gradually accept MCS as a 'broad' concept, one implication and yet another research challenge is that control systems are not independently used in an organization or solely resulting in organization outcomes. In contrast, they rely on, or adjusted by, the interaction with various contexts within and around an organization (Fisher, 1995; Langfield-Smith, 1997; Chenhall, 2003; Islam and Hu, 2012).

In Hambrick and Lei's (1985) summary, early studies revealed two confronting attitudes towards organizational contexts. On the one hand, researchers describe each organization as an independent individual containing specific organizational factors which distinguishes it from the others. In this sense, a unique management control system is assumed to act in each single organization and result in particular outcomes. However, it seems such an investigation on firm-specific factors is too explicit to yield comparative conclusions, and which often resulted in difficulties to generalize the knowledge and use of MCS. On the other hand, other researchers seek optimal laws which can be applied in organizations under all circumstances. However, this universalistic approach seems unrealistic for MCS design as to certain extent contextual differences per se has been appreciated as part of organizational controls. This led to the development of the contingency thinking in MCS.

2.2.1 The introduction of contingency approach

Contingency theory was introduced in organizational studies as a promising approach to mediate the two extremes. Formed as a subset of the contingency approach in science, at the most abstract level this theory could be explained as that "*the effect of one variable (X) on another (Y) depends upon some third variables (W)*" (Donaldson, 2001, p.5). Therefore, a bivariate relationship between X and Y is invalid since it is just part of a larger causal system, in which W - as the contingent variables - are involved. Therefore, when the contingency approach was introduced into organizational studies, this trivariate relationship was briefly specified as to how organizational characteristics (X) impact on organizational effectiveness (Y) under certain organizational conditions (W). This contingency-based research paradigm (Donaldson, 2001), on the one hand, claims the impossibility to develop a generally applicable management system because managerial actions are dependent upon the internal and external environment surrounding organizations (Reid and Smith, 2000). On the other hand, in contrast to firm-specific theory, it has less but well-designed clusters of variables, which facilitate research findings to be measureable and generalizable among organizations in different settings (Islam and Hu, 2012).

The contingency theory facilitates MCS to be studied within organizational contexts. More precisely, while the Y variables (the dependent variable) in organizational contingency framework have been ascribed as organizational effectiveness, it indeed includes a broad scope of meanings in terms of efficiency, profitability and employee satisfaction (Child, 1975; Dewar and Werbel, 1979; Donaldson, 2001), which in turn share similar meanings of the ‘organizational objective and performance’ that are assumed to be achieved through the use of MCS. Therefore, it is appropriate to identify MCS design and use as one of the organizational characteristics (the X variables), whereby researchers are able to investigate which and in which extent control systems are fitted in an organization for a better organizational performance (or vice versa) under its contextual contingencies. The fit-performance relationship, as the heart of contingency paradigm, has become to one of the most dominant approaches in contextual-related MCS studies (Fisher, 1995; Langfield-Smith, 1997; Chenhall, 2003; Chenhall and Smith, 2011; Otley, 1992).

2.2.2 MCS and contingent contextual variables

It is fair to argue that when contingent variables are defined as any variable which moderates how an organization’s characteristic impact on its effectiveness, this definition can be quite encompassing and open-ended, and likely to result in ‘piecemeal way’ of research (Fisher, 1995). In other words, variables would be arbitrarily selected so connections among different types of variables are overlooked. In order to address the potential problem, theories of organizational structure were introduced as the foundation of contingency approach in organization research (Donaldson, 2001; Chenhall, 2006; Islam and Hu, 2012). Structural contingency theory associated contingencies with organizational structure, which assumed that an organization would change its structure as a consequence of changes of its contexts (i.e. contingencies). In this sense, the fit-performance relationship depended on organization’s structure as the theory assumes that a positive effect on performance could be achieved when an organization changes its structure to be consistent with its context. Therefore, structural contingency framework provides a more abstract yet overarching paradigm, by which contextual factors are able to be defined as contingency variables which influence on an organization's structure.

Based on reviews of Fisher (1995), Langfield-Smith (1997) and Chenhall (2003), there are mainly five types of variables that are involved in MCS contingency research, namely external environment, technology, organizational structure, size and strategy.

MCS and external environment, technology, structure and size

As the most highlighted representation of contextual contingency in initial studies, external environment variables have been identified as the key cause of organizational structure (Donaldson, 2001), and are seen as a foundation of the structural contingency framework (Chenhall, 2003). While various descriptions and types of external environment have been simultaneously used as contingent variables (for examples, see Duncan, 1972; Khandwalla, 1977), environmental uncertainty is referred to as the most researched aspect related to MCS studies (Langfield-Smith, 2006; Merchant and Otley, 2006; Islam and Hu, 2012). A generalized finding of previous studies stated that MCS, by functioning as either an evaluation mechanism or an information provider, was more likely to be used in more uncertain situation of external environment (see review by Chenhall, 2003).

However, whilst earlier studies focused on the usefulness of financial, formal controls under environmental uncertainty (Chapman, 1997; Hartmann, 2000), an increasing number of studies suggested that more interpersonal and flexible controls were used as a complement of traditional controls in terms of budgetary system and financial indicators of performance measurement (Ezzamel, 1990; Baines and Langfield-Smith, 2003). In summary, Chenhall (2003, p138) proposed a "*more open, externally focused, non-financial style of MCS*" is needed to be associated with environmental uncertainty.

Moreover, while this argument is greatly consistent with the current perception of MCS as a broad and encompassing system or package, it also indicated that 'external environment' needed to be clearly specified, whereby the design of MCS would be able to provide more specific information for a complex environment. Some more recent studies have showed great efforts at this point. For example, perceived environment uncertainty (PEU) has been extensively used as a more explicit variable, by which top managers' perceptions of environment has been specified to be associated with management control innovations (Al-Sayed and Dugdale, 2015), environmental MCS (Pondeville *et al.*, 2013), and MCS in less-developed regions (Albu and Albu, 2012; Ajibolade *et al.*, 2010). Increased attention has been paid to the environmental pressures derived from social and ecological demands, such as the relationship between strategic PMS and environmental dynamism (Bisbe and Malagueño, 2012) and how management controls were influenced by ecological PEU, corporate proactivity, and environmental strategy (Pondeville *et al.*, 2013; Christ and Burritt, 2013).

Technology has many meanings in organization behaviour and normally this term represents two concepts within MCS contingency research. On the one hand, three types of technology of importance to MCS design were identified as task complexity, task uncertainty and task interdependence (Fisher, 1995). These generic concepts interact with the operation of organization's work process, an organization's hardware such as machines and tools, as well as people and knowledge involved in an organization (Chenhall, 2003). On the other hand, driven by the fast development of the manufacturing industry after World War II and the emergence of advanced technologies (e.g. Just in Time (JIT), Total Quality Management (TQM) and Flexible Manufacturing (FM)), theorists argued that the use of these contemporary technologies have transcended their technical meanings, which greatly impacted on performance measurement and incentive schemes (Young and Selto, 1991; Chenhall and Langfield-Smith, 2007; Nur Haiza Muhammad and Hoque, 2010). This motivated a stream of studies considering the fit between MCS and advanced technologies.

Research in technological contingencies had been greatly confounded with environmental ones since the theme of 'uncertainty' have commonly associated with and implied in both types of variables. Chenhall (2003) explained the technology may respond to environmental uncertainty since the former is partially derived from "*the environment with the technology being responsive to the uncertainty associated with market and product requirements*" (p.143). In this sense, studies of the MCS – technology relationship showed similar conclusions with those exploring the link between MCS and external environment (Chenhall, 2003). The use of more informal, non-financial and broader information-based controls were emphasized at the higher level of uncertainty, as well as the use of less standardized production processes and advanced technologies derived from the uncertainty. Furthermore, several new perspectives have been introduced during the evolving process of technology. Enterprise Resource Planning (ERP) - as a typical use of information technology (IT) in management (Chapman, 1997; Chapman and Chua, 2003; Chapman, 2005) - has been identified as a key technological contingency in many recent MCS studies (Morton and Hu, 2008; Kallunki *et al.*, 2011; Clegg and Wan, 2013). Other researchers have attempted to investigate technological contingencies beyond the manufacturing setting. For example, based on an extensive review of performance measurement in service industry, Jääskeläinen, Laihonen, Lönnqvist, *et al.* (2012) proposed that attention is needed to examine the relation between PMS and specific technological contingencies in terms of intangible output measurement in a service contexts.

The contingent variables of organizational structure have been mainly classified into two streams. Briefly speaking, while some organizations could be integrated to ensure its sub-units are operating in line with organizational goals, other organizations could also be differentiated to allow sub-units managers to act as entrepreneurs (Lawrence *et al.*, 1967). The different structures would be distinguished by the extent of using structuring mechanisms such as centralization, standardization, formalization and configuration (Pugh *et al.*, 1969). Defined as firm and industry variables (Fisher, 1995), organizational structure and size refer to the more internal aspects of an organization, which have always been examined alongside other external factors such as competitive environment, technology and strategy (Hoque, 2011; Chenhall, 2003; van Veen-Dirks, 2005), The affiliated role of structure and size is still noted in many recent studies examining strategic MA (Pavlatos, 2015; Cinquini and Tenucci, 2010), activity based innovations (Al-Sayed and Dugdale, 2015), Strategic PMS and incentives (Speckbacher and Wentges, 2012), environmental MA (Christ and Burritt, 2013), and MA practices in less-developed countries (Albu and Albu, 2012).

MCS and strategy

Strategy is somehow different from other contingent variables. Rather than being merely a factor in an organizational context, the importance of strategy is reflected in its direct association with MCS design. The premise of main stream strategic MCS research outlines that MCS should be explicitly designed to support an organization's strategy (Langfield-Smith, 2006; Cadez and Guilding, 2008; Gond *et al.*, 2012), as a high performance would be dependent on a match between strategy and MCS in line with the contingency framework.

While the idea of 'matching' somehow suggested a passive and subordinate role of MCS to pre-set strategies, earlier studies on this topic mainly focused on the relationship between specific constituents of the MCS and the selected strategy of the organization (Dent, 1990; Simons, 1991). Three main typologies have been introduced as strategy variables namely cost leadership, product differentiation and focus (Porter, 1980), defenders, prospectors, analysers (Miles *et al.*, 1978) and the product life cycle of Build-hold-harvest (Gupta and Govindarajan, 1984). Various aspects of MCS have been studied in relation to these typologies, and despite the different research settings and measurement, MCS were mainly split into two forms to be adopted (Langfield-Smith, 2006). In Chenhall's (2003) summary of early studies, if organizational strategies are labelled as defender, cost leadership, or harvest, one is more likely to focus on formal, financial-based controls such as cost control, rigid budgets and objective performance targets. In contrast, the broad scope of planning, information-based, interactively used and subjective MCS are preferred by organizations characterized as prospectors, product differentiators or entrepreneurial in nature.

The dichotomous view of the relationship between MCS and strategy however implied restrictions. It is not only that organizations may pursue strategies which include various aspects of different typologies (Chenhall, 2003; Langfield-Smith, 2006), but the more significant problem is the role of MCS in the formulation and implementation of strategy has greatly overlooked (Chenhall, 2003; Tessier and Otley, 2012; Bisbe and Malagueño, 2012; Alkhafaji, 2011). The definition of MCS has evolved during the last 30 years, within which MCS has transcended its accounting functions to a more broad scope of meanings that challenge the boundaries between strategic, managerial and operational controls (Langfield-Smith, 1997). Chenhall (2003) used the term 'strategic choice' to illustrate a more complex position of MCS in strategic research. In other words, managers could use various management controls to predict the current situation and position organizations to certain environment. Therefore a simple matching of MCS design and strategy is unable to capture managerial activity during the strategic formation, implementation and change phases.

In this sense, more recent strategic MCS studies paid greater attentions to Simons' work (1990, 1991, 1994, 1995) who argued "*it is not the identification of controls associated with particular strategy that is important, but the distribution of management attention among controls*" (Langfield-Smith, 2006, p.773). Strategy has no longer been solely identified as the prescription for MCS design; rather it implied how managers interactively and diagnostically use controls for reinforcing strategic thinking or changes. Langfield-Smith (2006) concluded that more complex studies are emerging since the activities of managers in different organizations may vary even if those organizations share similar contextual factors. Although he suggested that in-depth findings of interactions may not likely emerge from survey-based research, the 'levers of control' framework has been introduced into contingency studies whereby the interactive and diagnostic use of MCS are used as independent variables (Abernethy and Brownell, 1999; Bisbe and Otley, 2004). But more importantly, while recent thinking outlines a two-way relationship between MCS and strategic variables (Kober *et al.*, 2007), the strategic use of management controls has been identified as an independent cluster of variables, whereby many recent contingency studies increasingly focus on the relationships between strategic MCS and other contingent variables (Pavlatos, 2015; Speckbacher and Wentges, 2012; Bisbe and Malagueño, 2012; Abushaiba and Zainuddin, 2012; Cinquini and Tenucci, 2010; Naranjo-Gil and Hartmann, 2007). While this type of research in a way corroborates the role of strategy in contingency MCS research, it also indicates that the idea of a broad scope MCS has been increasingly accepted, by which the conventional separation of strategic, management and operational controls may no longer hold in current MCS research.

2.3 Cultural MCS research

The above section provides a summarized review of the relationships between MCS and key contextual variables. However, an increasing number of researchers criticised that those conventional contingencies derived from organizational structure studies are largely organizational-specific and technical-driven. Therefore, while the structural framework may help with insightful findings for studies conducted in single organization or location, it is insufficient to explain more complex conditions such as organizations in different national settings (Harrison *et al.*, 1994; Bhimani, 1999; Bhimani, 2006; Scheytt *et al.*, 2003; Endenich *et al.*, 2011). In other words, the restricted contextual variables have tended to ignore the broad scope of context in terms of political, societal, economic and cultural elements within different countries.

Envisaging those broader aspects of contexts represented a significant shift of focus in MCS research in past 20 years. From a practical perspective, the reason for investigating broader contexts was greatly ascribed to the simultaneous decline (rise) of competitive advantages in Western (Asian) companies (Chow *et al.*, 1991). The change in market attracted many researchers to explore the reasons for the success of Asian companies, which in turn resulted in greater attention to the role of national culture in enhancing organizational performance.

The relationship between MCS design and national culture has thus been examined within contingency research (Harrison and McKinnon, 1999; Bhimani, 1999), reflecting an extension of this approach from organizational foundations into more sociological concerns (Chenhall, 2003). Harrison and McKinnon (1999) stated while the globalization of world economy brought opportunities for international mergers and foreign joint ventures, companies which developed multinational operations were in a dilemma as to whether diffuse their original MCS in a different country or to redesign their MCS for the purpose of being consistent with local contexts. In this sense, the existing contingency-based cultural research could be classified as cross-national and cross-cultural studies, which reflects the different views of culture, as well as the development stages of contingency approaches in cultural MCS studies.

2.3.1 Cross-national and structural contingency approach

The development of cultural-related MCS research experienced different stages. Bhimani (1999) proposed five research perspectives for current and future cultural-related research in MCS (see

Figure 2). He concluded that although the research concerns showed an inclination from universalism to more contextual, and the methodology was changing from nomothetic to more ideographic, cultural MCS research before 2000s were mainly focused on two approaches which are the structural contingency and the culturalist perspective.

		Contingency Theory	Culturalist	Societal Effects	New Institutionalism	"New" History	
View of Homogenising Forces:	Universalism	⟷					Contextual
View of Management Controls:	Purposeful	⟷					Emergent
Methodological Emphasis:	Nomothetic	⟷					Ideographic
Focus of Analysis		Functional Relationships	Comparative Differences	Configuration of Systematic Features	Process of Enactment	Rationalities as Products of Historical Circumstances	

Adapted from Bhimani (1999, p.416)

Figure 2 Differentiating features of alternative research perspectives

Some early studies compared and evaluated the use of specific management controls in terms of budgetary participation (Whitt, 1979) or a number of key management accounting techniques (Chiu and Chang, 1979) in different countries. While the findings suggested a distinctive use of MCS elements within different nations, they were reluctant to ascribe those differences to cultural influences. It is because early studies adopted a conceptualization of societal transformation and identified cross national differences as a result of organizational transformation, which would ultimately disappear through the convergence of organization structure. In other words, a logic of organizational structuring was proposed (Harbison and Myers, 1959) to argue that building an organization relies on the development of management which is applicable to both advanced and developing nations. This logic required organization to improve their management to face the growth and complexity of activities. It was assured that the effect of national specification can be 'suppressed' by sophisticated and specialized management controls. In summary, early studies supported the view of a macro-social 'culture free' (Lammers and Hickson, 1979) environment in which the effects of national specificity were downplayed and could not influence the structuring of an organization.

The 'culture free' view greatly facilitated the structural contingency approach to be applied in cross national MCS research, whereby the design and use of MCS in different nations were merely compared and evaluated under conventional and organization-based contextual contingencies in terms of technology, strategy, and firm, unit or industry variables (Hickson *et al.*, 1974; Hickson, 1981). Structural contingency assumes that the influencing elements of organizational structure are universally applicable even in different social and cultural environment; therefore the fit-performance would also be hold as long as organizational structures are made to match the presupposed contextual contingencies, regardless of different national environments. Therefore, management controls were identified as functional tools. National or cultural differences, to a large extent were still overlooked since they could be adjusted through specific MCS design, and ultimately, generalized to be fitted within organizational structure (Bhimani, 1999).

2.3.2 Culturalist perspective and cultural contingency approach

However, although there is a considerable amount of contingency based cross national MCS studies, the results have been challenged widely. Several critical reviews about structural contingency research questioned the lack of an overall framework for analysis and the paradoxical findings of past studies (Chapman, 1997; Dent, 1990; Macintosh and Quattrone, 2010). More importantly, the structural contingency theory has been criticized in terms of its conceptual underpinnings (Child and Tayeb, 1982; Donalson, 1995) as Bhimani (1999) stated that organizational characteristics and the relationship between characteristics and contextual elements have only been studied at the macro level. Studies which strictly relied on structural contingency theory failed to propose an underlying theory of culture and its link with the national difference. Harrison and McKinnon (1999) stated that early comparative international studies restricted by the lack of theory to explain the definition of culture, therefore, were "*silent on what it was about culture that was associated with the observed national difference*" (p.484). Culture in structural contingency research was often recognized as a 'fuzzy' terminology. It has been often discussed as an unexamined variable, an unspecified independent construct or 'residual category' (Rohner, 1984; Bhagat and McQuaid, 1982; Kraut, 1975).

In fact, many cultural studies outside accounting research have systematically argued the dissimilar consequences of conducting identical tasks in different national societies (Archer, 1996; Erez and Earley, 1993; Heller *et al.*, 1988). Those studies identified culture as an independent functional mechanism and developed a notion of 'nationally-rooted cultural forces'. This notion resulted in the 'culturalist perspective' (Bhimani, 1999, 2006) of MCS research, which assumed that individuals as members of a national society who share the similar internalized cultural values, could affect, and are influenced, by control structures in similar ways. This perspective emphasised the deterministic role of culture in its relations with human actions and environment (Birnberg and Snodgrass, 1988; Snodgrass, 1984). In other words, rather than being directly subject to environmental force, culture filters individuals' perceptions about environment, which in turn guides and shapes individuals' actions that are different from other cultural groups. This argument confronts the structural contingency proposition and rather than arguing that cultural difference can be marginalized in the process of universal organizational structure through improved MCS, it in fact advocates the independence of culture and appeals for a direct attention to the interaction between MCS and cultural elements.

The 'culturalist' perspective envisages the direct impacts of cultural values on organizational structure and MCS design, which eventually shift researchers' attention from explaining the nature of culture to evaluating what culture does (Snodgrass, 1984). However, it would be problematic in academic research if culture components cannot be specified (Bhagat and McQuaid, 1982; Child and Tayeb, 1982). In this case, Hofstede's cultural taxonomy (Hofstede, 1980; Hofstede, 1984; Hofstede and Bond, 1988), as an explicit elaboration of cultural variables, was introduced in cross-cultural MCS research and utilized as the basis of cultural contingency approach for a theoretical explanation of the relationship between culture and other variables.

Hofstede's work has been mostly survey based studies been conducted in worldwide subsidiaries of one large multinational organization. These studies selected employees from various nations and evaluate their attitudes toward work situation. The purpose of the studies was to seek the different values and perceptions of employees within different nations, and to evaluate to which extent differences exist. These studies have sufficient coverage in that Hofstede (1980) covered employees from 40 countries and the number was then extended to 53 (50 countries and 3 regional groupings) in Hofstede (1984). The results classified culture into four values namely power distance, individualism, uncertainty avoidance and masculinity. Moreover, by focusing on East Asian countries, Hofstede and Bond (1988) developed another component referred to as the Confucianism dynamic as the fifth aspect of his cultural dimensions.

Power distance (PD) illustrates the extent to which power is distributed among members in an organization or institution. Culture with low power distance generally means equal power distributed to members regardless of their formal work positions, and which is related to a more democratic or consultative social conditions whereby subordinates are expecting to participate in decision making. In contrast, high power distance groups acknowledge that members in higher hierarchical positions should have more power, and it is accepted that powerful members are responsible for making decisions in an autocratic or paternalistic way. Individualistic (IDV) culture values personal achievements and self-determination in the first place, in which the individual self is prioritized rather than the relative social institutions. The opposite collectivism describes a society in which individuals are highly integrated into groups and consider group's benefit as the priority. Uncertainty avoidance (UA) evaluates to which extent the organization or society tolerates uncertainty and change. People who are prone to minimize unusual circumstances and implement rules, laws and regulations to plan and monitor changes are recognized as a group developing a high uncertainty avoidance culture. Others who accept unstructured situations or can readily adapt to changing environments are seen to be more pragmatic and have lower level of uncertainty avoidance. Masculinity and Femininity (MAS) refer to the emotional roles between genders. Masculine culture includes values in terms of competitiveness, assertiveness, materialism, ambition and power, while the feminine cultural value emphasizes the modesty, cooperation and quality of life. Cultures that are inclined to masculinity often pay more attention to the differences between gender roles while feminine cultures consider the similar values to be held by men and women. This cultural dimension is often used to determine whether the quantity or quality of life is more important for a society. Confucian dynamism (CD) is developed through inputs from Chinese social studies. This dimension, for the purpose of diminishing potential western bias, is specifically used as a supplement to measure culture of Asian nations, particularly in relation to China, Taiwan, Singapore, Malaysia, and Indonesia. A high Confucian dynamism culture shows an intense association with Confucian teaching and implied Confucian values. In Hofstede's study, Confucian values are described as a society's time horizon, by which a high Confucian dynamism culture would focus on long term orientation or persistence. The emergence of Hofstede's cultural typology sheds a light on cross-cultural MCS research by classifying culture into five measurable variables and ranking countries into such dimensions. Researchers are able to predetermine cultural variables for their research objects and empirically evaluate its interaction with organizational or MCS variables.

While the findings of cultural contingency based studies, especially those which relates to the Chinese culture will be reviewed and evaluated in the following sections, the main point here is that although the limitations of Hofstede's work have been critically discussed in the recent 20 years (Bhimani, 1999; Harrison and McKinnon, 1999; Baskerville, 2003; Joannidès *et al.*, 2003; McSweeney, 2002), this cultural typology had been extensively, and almost exclusively adopted in previous studies, and remaining great influence on current cross cultural MCS research (Wickramasinghe, Joannidès and Berland, 2010).

2.4 MCS research in China

2.4.1 MCS in China from 1949 to 1992

While management control systems have been extensively researched since the second half of 20th century (Baxter and Chua, 2003), studies about this topic in Chinese context were absent until the 1990s. The causes could be twofold. Firstly, the importance of management accounting per se has not been raised until 1980s, and the concept of management control system was still in its initial development. The second but essential cause is the unique political environment which greatly blocked research access to this completely different political, social and cultural environment. China, since its establishment in 1949, is a socialist state and owns a different ideology and economic system compared to western countries. China immediately embarked a profound social movement after its establishment, which was supposed to defeat capitalism by confiscating private lands and transferring private enterprises into public ownership. This class struggle reached a peak during 1966-1976 when 'cultural revolution' was conducted to eliminate any 'capitalist tendencies'. The Chinese government, before 1978, paid exclusive attention to the construction of a socialist system, which developed a self-reliance scenario that rejected any outside access for information and communication.

Many retrospective reviews provided by later studies (Skousen and Yang, 1988; Bromwich and Wang, 1991; Chow *et al.*, 2007) stated that management accounting prior to 1978 has been recognized as a tool to satisfy the needs of central planning. Due to the similar social, economic and ideological environment, several Soviet management accounting methods (e.g. standard costing, inventory planning and control and responsibility accounting for cost centres) were introduced in 1950s as the initial principles for Chinese enterprises. However, these so-called Soviet-based practices per se were originated from the United States, which were then adopted and used in the Soviet Union for developing its accounting system in the 1920s and 1930s (Skousen and Yang, 1988). Therefore, it is fair to state the influence of western management accounting was still noticed in the early development of Chinese management accounting. Chow, Duh and Xiao (2007) even suggested that several management accounting techniques adopted in China before the economic reforms only differed from western ones in name. The Chinese use of MA/MCS practices was associated with western techniques in terms of responsibility accounting, normative costing system and budgeting methods. For example, 'Work-team' concept emerged in 1950s had been rapidly accepted by enterprises in China. Workers in an organization were classified into several teams or groups and each team or group has its own responsibility to achieve planned targets in aspects of production, cost and output. This kind of team or group is quite similar to the notion of 'cost centre' in western responsibility accounting and Skousen and Yang (1988) indicated the work-team as the "*cost centre at the lowest level*" (p.202).

The internal business accounting (IBA) popularized from 1960s to early 1980s is an improvement of work-team concept. It was designed as a top-down system which was not only concerned with divisional controls of units for fulfilling their responsibilities, but also the assignment of plan to units. More precisely, the IBA system shared similar characteristics to the concept of responsibility accounting (RA) in the West (Bromwich and Wang, 1991). Firstly, the process of 'target break-down' divided overall responsibilities of one enterprise into parts and assigned them to be shouldered by internal units, which can be seen as the Chinese version of responsibility budgeting. Secondly, although moral incentives such as titles, certificates and public praise dominated the Chinese version, IBA is quite similar with western performance-based incentive system which linked the unit's performance with forms of incentives. Furthermore, IBA required the enterprise to prepare its own financial and production plans, which in turn needed to be approved by government and then used to evaluate the enterprise's performance. The planning system is quite similar to western operational budgeting. However, the real difference existed at the starting point of the budgeting process. While companies in the West typically started with a sales budget, the Chinese enterprise, due to its nature as a productive unit of central government, began with production plans.

The difference in objective (quantitative output for China vs. profit for western countries) also led to different uses of management accounting practice. Skousen and Yang (1988) argued although responsibility accounting was adopted in China, this practice was only partly implemented since responsibility accounting for profit and investment centres were not apparent in Chinese management accounting before 1978. He attributed such absence to a lack of management autonomy and economic responsibility arising from a centrally planning economy. Chinese enterprises did not have the necessity to pursue profit, set product price and retain profit since all of these have been centrally planned. Moreover, full state ownership, planned resource utilization and morally dominated incentives restricted the motivations of managers and employees toward performance improvement and investment decision-making. Consequently, Chinese enterprises from 1949 to 1978 revealed a tendency towards utilizing western-like management accounting practices, but the effectiveness of adoption was questionable due to the primacy of the political rationale in the socialist system.

The development of MCS in China has significantly accelerated after 1978, which further revealed an inclination towards western style management accounting. However, Responsibility accounting, Cost-Volume-Profit (CVP) analysis, and costing were still the most common topics studied in the Chinese context at the initial stage of economic reform (before 1992). Bromwich and Wang (1991) stated that IBA has been used continually by Chinese enterprises but several improvements were made to incorporate western ideas and techniques. More precisely, a new version of responsibility accounting was developed at the basis of a multi-criteria performance measurement and incentive system, whereby the Chinese moral based rewards were complemented by monetary ones. Skousen and Yang (1988) also documented that profit and investment centres emerged in China's internal business system, which made the latter closer to a complete western responsibility accounting system. The authors emphasized how cost behaviours analysis was rapidly applied in profit centre accounting. A normative costing system has been replaced by a standard costing system since the former one was incapable of reflecting updated and advanced level of costs and it was difficult to make comparisons between norm and actual cost. Hence, western concepts in terms of variable and fixed costs, contribution margin, CVP analysis and variable costing were implemented in Chinese enterprises. Bromwich and Wang (1991) argued that a special interest has been paid to CVP analysis (79% acceptance rate in his survey) in China since Chinese accountants identified this technique as having greatly contributes to profit increases.

While the findings showed China has basically departed from Soviet accounting system and increasingly accepted western management accounting ideas after 1978, the limitations in management accounting adoption has also been discussed. Duh, Xiao and Chow (2009) summarized the management accounting techniques used in China in 1980-1990 and stated that financial analysis was the biggest reason for using MA techniques, which indicated that the enterprises' management accounting systems were still designed for financial purposes rather than for managerial functions.

It is also noticeable that from the methodological perspective, conceptual/normative studies played a dominant role in Chinese MCS research before 1992. Apart from the different social, political and economic environment, researchers also faced the lack of accessibility due to political reasons. Therefore, it was relatively impossible to conduct empirical research in this new context. Early studies in the Chinese context (Skousen and Yang, 1988; Bromwich and Wang, 1991; Scapens and Yan, 1993) showed quite similar in research design. They all started from a review of economic reform progress and the concomitant situation of accounting in China. Based on the reviews, they identified similarities between Chinese and western accounting practices, by which some initial comparative evaluation and comments were made for directing future empirical research. For example, Bromwich and Wang (1991) illustrated that 'work-team system' is the Chinese version of cost centre in western responsibility accounting, which provides the opportunities for adopting western approaches to alter, modify or improve existing Chinese management accounting system.

2.4.2 MCS in China from 1992 to the present

This new picture of management accounting in China has been greatly ascribed to the economic reform started from 1978 (Skousen and Yang, 1988; Bromwich and Wang, 1991; Chow *et al.*, 2007), especially when an influential policy change namely 'opening-up policy' emerged in 1992. This further economic reform in 1992 sheds the light on the management accounting research in Chinese context. On the one hand, the policy changes (shareholding system, privatization and joint venture) indicated as well as the positive attitudes towards outside participation, which provide the opportunities for foreign researchers and practitioners to involve in Chinese companies. Therefore, they could easily observe management accounting practices in China and evaluate its development. On the other hand, the open door policy resulted in China's acceptance towards western accounting notions, by which a large number of western textbooks and academic papers has been introduced into China. Management accounting became increasingly popular in China after the economic reform (Skousen and Yang, 1988; Chow *et al.*, 2007; Scapens and Yan, 1993). While many Chinese management accounting practices were assimilated from or modified by western ideas, even more western practices were introduced wholesale in business operations. This circumstance induced researchers' interests to study the Chinese context to understand the process and effectiveness of adopting western management accounting in this particular social, cultural and political environment.

The following section provides a systematic review of management control system in China after 1992, which has been divided into four parts for discussing the research settings, topic, method, and theory.

Settings

China showed an accelerated pace of reform after 1992 and one of the most influential changes was the loosening of restrictions for foreign investment and the emergence of foreign joint ventures in Chinese business operations. This political change brought new settings which did not exist in conventional western MCS research. The SOE enterprise and its joint venture, as two special settings in Chinese contexts, led to various research studies (Firth, 1996; Sulaiman, Ahmad and Alwi, 2004). In fact, the term FJV has been already proposed in earlier studies when Scapens and Yan (1993) suggested that the involvement of foreign joint venture ownership may promote the development of management accounting in China. However, the authors were quite cautious about the feasibility since the slowly reformed Chinese economy prior to 1992 still reflected major differences in terms of underlying economic assumptions compared with western economic notions.

The later 10-year studies have corroborated this presumption. More precisely, many studies stated that the joint venture allowed foreign managers' involvement in local companies' management, which provided more opportunities for foreign managers to introduce and adopt foreign management accounting systems (Wu, Boateng and Drury, 2007; Chalos and O'Connor, 2004, Li, Tang, Okano, et al., 2013). Moreover, researchers preferred to include SOEs or FJVs' SOE partners in their studies; therefore, they were able to compare and evaluate the diffusion and adoption of new MA systems and practices under different ownership conditions (O'Connor *et al.*, 2004; Wu *et al.*, 2007; O'Connor *et al.*, 2006). Firth (1996) was one of the first studies investigating the diffusion of managerial accounting procedures in China and evaluating the usefulness of FJVs in the process of diffusion. This study stated that FJV activities provided more explicit and various types of practices utilized by Chinese companies, which also improved the level of acceptance of profitability and efficiency measures in its SOE partners. Wu, Boateng and Drury (2007) conducted a further research which evaluated the benefits perceived from the adoption of western MA practices in Chinese SOEs and FJVs. This study found that the benefits from such adoption were perceived in different ways by SOEs and FJVs. On the one hand, SOEs started to conduct long-standing and detailed budgets, introduced performance evaluation and incentive mechanisms, and replaced standard costing with full-absorption costing. On the other hand, FJVs experienced benefits from strategic-related management accounting practices, and measuring product development and profitability for the purpose of improving competitiveness in a market-oriented environment.

Topics

Following the additional economic reforms in 1992, many new management accounting notions and techniques have been introduced in Chinese enterprises. Performance measurement and incentive systems and the utilization of MA information for communication have been increasingly discussed, which reflected a shift in the role of assigned to management accounting in Chinese business operations (Duh, Xiao and Chow, 2009). Based on a survey of 23 management accounting practices in 225 Chinese listed companies, Duh et al. (2009) provided a summary of MCS development in China after the latest economic reform. Firstly, a continuing use of traditional techniques was revealed which included CVP and responsibility accounting. Secondly, the authors noted a significant increase in the adoption of target costing, which is aligned to the economic reform progress that replaced the centrally planned nominative costing system. Thirdly, the high adoption rate of performance based compensation plans showed the Chinese government's dominant role in promoting advanced MCS, since the compensation plans used in state owned or controlled enterprises were largely derived from government regulations. In this regard, Duh et al. (2009) concluded that although the improved top management level and the emergence of board of directors play an important role in China's MCS development, the modernization of MA practices was substantially promoted by external forces, mainly arising from government initiatives. Sulaiman, Ahmad and Alwi 's (2004) conclusion shared some similarities with Duh et al.

(2009) by reporting a decline in the use of standard costing and the use of western performance measurement such as Return on Investment (ROI) for evaluating departmental performance. However, this study also highlighted the limited use of budgets in China. While production and cash budgets have been moderately used without middle management and foreign partners' participation, capital budgeting was barely used, especially in the case of SOEs. The authors argued that since the government remains the primary equity provider, SOE managers still have little discretion for decision-making.

There are also several studies focusing on the broader concept of management control system in China. Instead of narrowly being concerned with the effectiveness of specific management accounting practices, authors such as Lin and Johnson (2004), Yang and Modell (2015), Fleming, Chow and Chen (2009), and Li and Tang (2009) examined how control mechanisms evolved within the change of organizational structure and business environment in China. For instance, Lin and Johnson (2004) showed Chinese managers' gradually acceptable attitude toward the use of management accounting information for quality performance measurement, whilst Fleming et al. (2009) found a positive relationship between firm performance and the emphasis on strategic performance measurement systems in Chinese listed manufacturing companies. More recently, Yang and Modell (2015) evaluated how the emergence of shareholder orientation promoted the evolution of management control practices in transformed SOEs. However, while these studies ascribed the evolution of MCS to the changes in managers' notions, some other studies went further to explain managers' changes in notion by focusing on the relationship between MCS and organizational contexts. Detailed review of these contextual studies will be expanded in the following section (2.4.3).

Methods

An entirely different application of research methods has been found after 1992 as Survey became the dominant method in Chinese MCS research. The popularity of survey method reflected researchers' intentions to ascertain the generalizability of western accounting knowledge in the Chinese context. For example, questionnaire-based studies have been conducted to understand whether and in which extent the diffusion and adoption of western management accounting is effective and efficient (Firth, 1996), whether Chinese companies perceived the benefits from implementation (O'Connor *et al.*, 2004), and which factors improve or impede the development of Chinese management accounting (O'Connor *et al.*, 2006; Wu *et al.*, 2007).

There are also a few studies conducted using case study/action research method to investigate the performance of some Chinese specific management accounting systems, or the implementation of advanced MA techniques. Lin and Yu (2002) relied on a case study to explore the responsibility cost control system in a large state-owned steel company. They show how the cost control system appeared to lead to the substantial reduction of production costs and improved profitability for the case company. The authors concluded that the diffusion of advanced MA practice would be effective as long as it is integrated with conventional, responsibility-based techniques. In another case study, Liu and Pan (2007) investigated the implementation of activity-based costing in a Chinese electric company, which also led to a positive influence on the company's performance. Liu and Pan (2007) attributed the success to top management support and indicated how top-down instigation can positively impact the adoption of management accounting innovations. Regardless of its less use in previous Chinese related research, case study approach has attracted increasing attention in recent years since authors believe that the dynamic characteristics of MCS, and the interactions between MCS and Chinese contextual factors, are more easily to be captured by in-depth and longitudinal field studies (Yang and Modell, 2015; Li, Tang, Okano, et al., 2013).

Theories

Based on the review of studies prior to 1992, it appears that no specific theory was applied as few empirical studies were conducted. Yet, several conventional western theories were proposed for future research in this very context. Bromwich and Wang (1991) firstly highlighted that agency theory might be used as the theoretical base for establishing a Chinese management accounting framework. The possibility of adopting agency theory was also discussed by Scapens and Yan (1993), in which he argued agency theory might provide suggestions for coordinating relationships between State authorities and State enterprises, thus improving the existing contract system in

China. Moreover, behavioural theory has been suggested to improve one's understanding of the responsibility accounting system in China, as it may explain the participation and motivation of managers and workers in state enterprises, as well as provide a clear linkage between incentive and efficiency in contract completion. Accompanied by the increasing adoption of western MA innovations, Firth (1996) introduced institutional isomorphism as its theoretical framework to explain the MA procedures diffusion in China. Specifically, Firth (1996) argued that the concept of performance gap and the mimetic mechanisms of institutional isomorphism (Powell and DiMaggio, 1983) appear to be relevant in explaining the diffusion of accounting innovations in China.

Nonetheless, the contingency approach, as the most popular theoretical framework in international management accounting research, was noticeably used in Chinese MCS research after 1992. This theory satisfied the needs for the broader forms of MCS research in China, and which focused on the influence of organizational factors on adoption of MCS, rather than evaluating the effectiveness of specific management accounting practices under certain conditions (Duh *et al.*, 2009; Fleming *et al.*, 2009). Conventional factors such as environmental uncertainty (Duh, Xiao and Chow, 2009), competition (O'Connor, Vera-Munoz and Chan, 2011), organizational structure (O'Connor, Chow and Wu, 2004; Chalos and O'Connor, 2004) and business strategy (Tsamenyi, Sahadev and Qiao, 2011) have been examined, in which several Chinese contingent characteristics (SOE ownership, FJV experience and foreign competition, listing on stock market and socialisation practices) were highlighted to influence on the use of MCS and also distinguish the Chinese context from others. Moreover, although the detailed interpretation and evaluation of theory were not revealed, insights from agency and institutional theories were also employed in some of these studies (Fleming, Chow and Chen, 2009; Chalos and O'Connor, 2004; O'Connor, Chow and Wu, 2004). However, these theories were pragmatically and selectively used to identify 'Chinese specifics' which can be examined as contingent variables. For example, O'Connor, Chow and Wu (2004) state that due to the uncertain and unverifiable principle-agent relationships during the restructuring of SOEs, a greater information asymmetry between management levels is likely emerged to influence the adoption of MCS.

2.4.3 Implications – the emergence of contextual studies in China

Studies in MCS in China after 1992 revealed some valuable implications. In general, it indicated that the progress of economic reform dominated the development of management accounting in China. Several changes in the economic system in terms of marketization, ownership structuring, privatization, and the stock market exerted significant impact on management accounting in China. For example, the FJV experience has been frequently emphasised as a positive player in mediating the adoption of Western MCS in the Chinese contexts (Wu, Boateng and Drury, 2007; Chalos and O'Connor, 2004, Li, Tang, Okano, et al., 2013).

A more specific implication refers to that increasing research attentions have been paid to this very context, and more importantly, researchers have moved their focus from evaluating the adoption of specific MA practices to a broader view of the role of MCS. In this regard, studies have started to explore China's unique contextual factors, as well as how managers' behaviour was influenced by the context and the new MCS practices.

General MCS studies of Chinese context

Some conventional contextual contingencies in terms of environmental uncertainty, structural arrangements and strategy were tested in the Chinese context. For example, O'Connor, Chow and Wu (2004) firstly evaluated the effectiveness of western MCS in Chinese SOEs and found the use of MCS increased when SOEs faced high market competition, previously had FJV experience and were listed on the stock market. However, the authors also stated that the presence of extensive government influence and Chinese cultural norms, coupled to the size and age (of SOEs), led to a decline in the use of MCS. In fact, the role of political environment and cultural differences had been greatly identified as alternative but key variables in Chinese studies, in which many empirical studies have analysed these two crucial factors simultaneously (O'Connor, Chow and Wu, 2004; Chalos and O'Connor, 2004; O'Connor, Vera-Muñoz and Chan, 2011; Li and Tang, 2009).

Researchers have proposed that the different political system (normally a socialist system) may indirectly or even directly influence the normal MA process and output. O'Connor, Deng and Luo (2006) identified political constraints as a crucial variable which either hampers or improves the effectiveness of MCS implementation. More precisely, policies from higher authorities restricted the extent of managerial delegation and the use of objective performance measures. However, the authors also found that political constraints (in delegation and decision making) positively influenced the use of incentive systems. Duh, Xiao and Chow (2009) ascribed the rapid adoption of new management accounting practices as the result of governmental directives. More precisely, while the policy of "*encompassing both financial measures and social contribution ratios in the performance measures for SOEs*" was proposed in 1995 (enacted by the Ministry of Finance, China), a more complex set of performance indicators were developed. Despite the somewhat contradictory findings, the above studies suggested academics and practitioners needed to envisage China's political effect as it seems to be always playing an underlying yet determinant role in the MCS development. For example, O'Connor, Deng and Luo (2006) developed a theoretical model which identified political constraint as an independent variable in the Chinese context, by which not only the interactions between political constraints and MCS characteristics are able to be studied, but it also allowed them to evaluate the relationships between political constraints and other 'conventional' contingent variables. Based on this framework, O'Connor, Deng and Tan (2011) examined the use of formal control mechanisms in Chinese SOE enterprises, and they concluded a significant and negative path relationship between political constraints and objective performance measures and firm performance. From a more specific perspective, Li and Tang (2009) studied the political influence on adoption of KPIs in performance measurement systems. Drawing from a modified form of stakeholder theory, the political effect (government's desire for industry control and sustaining employment) has been recognized as the mediating factor which indirectly determined the design of KPIs (setting of profit target) in PMS.

Culture had been continuously referred in China's management accounting research. An early study such as Bromwich and Wang (1991) has already argued that differences in Chinese culture may influence the adoption of western MA by indirectly influencing individual or group behaviour. Furthermore, the proposition of establishing a Chinese style MA theoretical framework has also considered incorporating cultural differences (Scapens and Yang, 1993). In addition to the variables of political constraints, O'Connor et al. (2004, 2006) also argued for the importance of

Chinese culture by proposing the need to include two cultural factors namely *Guanxi* (i.e. a form of interpersonal relationship) and the *Mianzi* factor (personal esteem) in his theoretical model. Subsequent studies echoed and developed O'Connor's argument. For example, in Li and Tang (2009) and Fleming, Chow and Chen (2009)'s two case studies, managers seemed reluctant to change the performance measurement system. Those barriers were believed to be mainly generated from the inherent management norms. Specifically, Chinese managers preferred to evaluate performance at the group level rather than at the individual level, Chinese employees were inclined to comply with the leaders' arrangements, and even the implementation of a management system relied on the interpersonal relationship between managers rather than the planned procedures and rules. Both of the above two studies attributed such management norms to the underlying Chinese culture.

China's national culture and cultural contingency research

While several Chinese contextual factors (e.g. *Guanxi* and *Mianzi*) have been introduced as abovementioned studies showed, to a large extent these factors were recognized as constitutive parts of an encompassing framework which reflected the concept of structural contingency approach where political, cultural and other contextual variables were considered in parallel and the relationships between them were ignored. Furthermore, while the independent role of culture in MCS has been greatly acknowledged (Bhimani, 1999; Harrison and McKinnon, 1999; Chenhall, 2003), it is fair to state that the encompassing approach has not treated culture seriously, because the cultural factors identified under this approach were extracted from the collection of Chinese managerial norms or the observation of Chinese managers' behaviour, which were too fragmented and discrete to make a clearer definition of Chinese national culture.

The demand for a better understanding about Chinese culture in MCS research led to an increasing use of cultural contingency approach in Chinese-related studies, which was especially apparent after 1992 when the progressive economic reform greatly improved the country's economic and political openness. However, studies were still limited and only a few Chinese cultural MCS studies published in international journals in the recent years (Chow, 2000; Chow *et al.*, 2000; Chow *et al.*, 2001; Cooper *et al.*, 2002; Tsui, 2001; Efferin and Hopper, 2007). Moreover, these studies share several similarities within the research setting, the use of theory and methodology, and even the empirical findings.

Firstly, although two studies criticized the usefulness of Hofstede's typology in defining culture (Tsui, 2001; Efferin and Hopper, 2007), all studies relied on these dimensions and investigated relations between cultural and other contingent variables. Most studies used cultural contingency approach (Chow, 2000; Chow, Lindquist and Wu 2001; Cooper, Chow and Wei, 2002; Tsui, 2001) and high power distance, collectivism and high level of Confucian dynamic were highlighted in these researches, which revealed similar cultural values with other nations and regions within Greater China Area (Chow *et al.*, 1991; Harrison, 1993; Harrison *et al.*, 1994; O'Connor, 1995; Chow *et al.*, 1999).

Secondly, the Chinese culture was mainly compared to the US and European countries, and inevitably, greater differences were noted in all of the selected cultural dimensions. For the relationship between cultural differences and the design and use of MCS, significant findings were highlighted. For example, high power distance caused a more readily acceptance towards the predetermined setting of performance measurement standards in China (Chow, Lindquist and Wu 2001), the collectivist principle encouraged Chinese managers to share management information with their in-group members (Chow, 2000), and the long-term orientation resulted in Chinese managers having different attitudes towards budgetary participation compared to their European counterparts.

Thirdly, these studies showed a common limitation in their research findings, since only the basic relation between one particular control mechanism and one cultural characteristic was examined. Nevertheless, these findings revealed that it is very likely that the cultural differences would lead to different use and outcomes of western MCS. However, what is not clear is how different cultural aspects would collectively interplay with MCS to generate (if any) particular outcome.

2.5 Evaluation of current contextual MCS research

Based on the literature review, the wide use of contingency approach would be manifested as a particular feature of previous contextual MCS studies. While this theory can shed light on to the importance of 'context' in MCS research and provided viable frameworks for specific analysis, debates on its limitations have always existed (Hewege, 2012; Otley and Berry, 1992; Moers and Hartmann, 1999; Gerdin and Greve, 2004; Endenich, Brandau and Hoffjan, 2011), particularly with the development of strategic MCS research (Langfield-Smith, 1997, 2006; Chenhall, 2003). More importantly, as the adaptation of contingency framework, the dominant use of culturalist approach (alongside the Hofstede's value dimension) in cross cultural MCS research also resulted in fierce and on-going criticisms from MCS research domain and beyond (Harrison and McKinnon, 1999; Bhimani, 1999; Baxter and Chua, 2003; Baskerville, 2003; Ahrens and Chapman, 2006; Chenhall, 2006, McSweeney, 2002, Wickramasinghe, Joannidès and Berland, 2010).

In this sense, a critical evaluation of the contingency approach in MCS research is necessary. Especially, it is imperative for this particular research not only because it would facilitate a clear understanding about MCS and contexts, and help with the decision-making for specific research design and methodological choice. But more importantly, while this research identified national culture as the entry point for understanding the use and design of MCS in the Chinese multinational setting, evaluating ideas of culturalist perspective would be a promising start for in-depth cultural explanations.

2.5.1 Empirical criticism

Perhaps the most straightforward and debated limitation of contingency-based MCS research would be the fragmentary and contradictory findings (Harrison and McKinnon, 1999; Moers and Hartmann, 1999; Chenhall, 2003; Gerdin and Greve, 2004; Langfield-Smith, 1997; Langfield-Smith, 2006; Van der Stede, Young and Chen, 2005). Some studies ascribed the limitation to the differences in research design and analysis processes. Langfield-Smith (1997) argued variations in the selection of numbers and types of management control mechanisms make it difficult to develop a coherent body of knowledge. Gerdin and Greve (2004) stated the main reason for conflicting findings refers to the arbitrary use of different forms of contingency fit without being concerned about their inter-connections. From the perspective of data analysis, Hartmann and Moers (1999) criticised the improper use of Moderated Regression Analysis (MRA) which significantly affected the testability and interpretability of contingency hypotheses in budgetary research. While these design problems often occurred, they are assumed to be addressable through better theorization (Chenhall, 2003), clarified 'fit' identifications, advanced analytical modelling (Gerdin and Greve, 2004; Burkert *et al.*, 2014) or comprehended level of analysis complex (Fisher, 1995). However, there are also many researchers (from strategic (Langfield-Smith, 2006) and cultural (Harrison and McKinnon, 1999) related studies) who remained sceptical or even pessimistic toward the effectiveness of the contingency approach in providing convergent and reproducible results.

From the strategic perspective, Langfield-Smith (2006) stated that rather than design problems in terms of variable selection or sampling, the empirical disparities mainly resulted from the intrinsic self-limits of this approach, which failed to capture the more complex characterizations of the MCS/strategy relationship in the current organizational environment because of the inappropriate operationalization of MCS. More precisely, the breadth of controls has not been fully appreciated as research attention was exclusively paid to formal financial and non-financial controls. This under-specification of the control system omitted the functions of some informal and subjective controls (e.g. clan and social controls), which resulted in a misaligned interpretation of correlative findings. Moreover, the complete picture of an organization's situation is unlikely to be captured even if a specific list of controls in use was provided. Some of the non-listed or less used controls may still function in an organization and interact with those listed controls, of which they were hard to be examined under survey-based, variable analysis. Conflicting findings were also generated from the blurred definition of 'effectiveness'. While it was usually defined as the core dependent variable for measuring the 'fit' between MCS and organizational variables, in some other studies 'effectiveness' was recognized as an independent variable. In this regard, empirical findings contradicted each other and reverse causality was overlooked in the research design.

Moreover, since the 'effectiveness' could be measured from various perspectives to reflect different organizational intentions, the possible mismatch of measurements among studies would further affect the reliability and comparability of findings.

Based on the review of past 15 years cross-national MCS studies dominated by the culturalist approach, Harrison and McKinnon (1999) found substantive disparities among research findings making them difficult to be replicated or confirmed by following studies. Despite some general limitations in survey research design such as different sample size, respondent rate and quality, and use of different cultural dimensions, they specified two key weaknesses in cultural studies as the fundamental causes of the disparity of findings. Firstly, they argued that the partial selection of culture values as contingent variables may generate irrelevant information. Respondents would arguably appreciate culture as an integrated whole which is constituted by various values within their social and cultural phenomenon. Secondly, they argued current studies failed to consider the differential in intensity of identical cultural values in different national contexts, which echoed with Bhimani (1999)'s advocacy to explore the embeddedness of culture in organization or society and the emergence of 'core and peripheral' values of culture (Bates *et al.*, 1995; Saffold, 1988; Lachman *et al.*, 1994). This idea criticized Hofstede's cultural classification in that it only measured about the prevalence of cultural values in certain nations, and failed to distinguish the centrality of values in different nations. In this regard, while different core values would 'overwhelm' other values and result in practical differences, the findings from comparative studies could be misleading since the intensity of cultural values has been overlooked.

These weaknesses have been revealed in empirical findings in Chinese MCS cultural studies. While power distance, collectivism and Confucian dynamism were assumed to dominate Chinese culture, not a single study was concerned that uncertainty avoidance was not manifested in Hofstede's classification of Chinese culture. However, 'Shen', as one of the principles in Confucianism guiding Chinese people's 'prudent behaviour', shared quite a similar meaning with the dimension of uncertainty avoidance (Efferin and Hopper, 2007). Therefore, the omitted uncertainty avoidance in Chinese-related analysis would affect the totality of Chinese culture. The problem of identifying the intensity of cultural values was also corroborated in Chinese-based studies. Studies in Chinese culture often use Taiwan as the representative of Chinese culture as it is acknowledged Taiwan and the Mainland China share many similar cultural values. However, Taiwan was isolated from the Mainland China for about 70 years after civil war, and for a long time this region has been largely influenced by Japanese and American culture. Therefore, it is difficult to affirm whether and to which extent a core cultural value of the Mainland China still has the same degree of influence in current Taiwan. There are also some empirical examples which further reflected the weakness of culturalist research in the Chinese context. For example, while both O'Connor (1995) and Tsui (2001) investigated the impact of 'high power distance' on the use of budgetary participation by Chinese managers, their findings were contradictory. On the one hand, O'Connor (1995) indicates that high power distance can mitigate role ambiguity and improve superior/subordinate relationship by moderating the usefulness of participation in budget settings. On the other hand, Tsui (2001) argued for the negative role of high power distance in the interaction between managerial performance and MAS information because of the aversion of Chinese managers to budgetary participation. He further made a discussion that the Western based MA theories may not be generalizable to the Chinese context.

2.5.2 Theoretical criticism

Based on the above discussion, it is fair to state that what beyond the empirical criticisms is actually a kind of scepticism towards the appropriateness and feasibility of the use of contingency approach in current MCS research. In other words, the evolved definition of MCS, the renewed conceptualization of strategy, and the introduction of sociological approaches in accounting (especially in cultural-related studies) greatly enriched one's knowledge in MCS research, which challenged the theoretical base of contingency framework (Bhimani, 1999; Langfield-Smith, 1997; Langfield-Smith, 2006; Baxter and Chua, 2003; Scapens, 2006; Tucker and Parker, 2015).

The increasing involvement of strategy in MCS research suggested the active role of managers in an organization as they would selectively use control mechanisms for achieving different strategic purposes (Simons, 1990, 1991, 1994, 1995; Langfield-Smith, 2006, Tucker and Parker, 2015). This idea sheds a light on to broadened research focuses from senior managers' use of controls to the activities that take place in different levels of management. The formulation and change of strategy are increasingly researched as the dynamic nature of MCS could be more embodied under these uncertain and flexible scenarios (Dent, 1990; Simons, 1990; Langfield-Smith, 2006).

The change in strategic framework further challenged the use of contingency in MCS research because strategy per se is no longer to be recognized as the outcome of certain deliberate stream of decisions. More precisely, the importance of identifying differences between intended and realized strategies are gradually manifested because of the realization of managers' activities. On the one hand, the idea of intended strategy reflects the formally planned and deliberately developed strategies, which are exclusively recognized in contingency approach as the base of 'fitness' with appropriate MCS designs and organizational effectiveness. On the other hand, realized strategy refers to those that actually used in practice which either developed from intended strategies, or incrementally emerged as the interactions with environmental uncertainty and changes. Realized strategies may dramatically differ from intended ones though the former determine the organizational effectiveness. In this regard, contingency approach may lose its efficacy to reflect the actual relationship between MCS and strategy since the distinction between intended and realized strategy, and the interactions of MCS within strategic processes, are barely discussed (Langfield-Smith, 2006; Tucker and Parker, 2014; Islam and Hui, 2012).

Perhaps a more important implication refers to that contingency approach is unlikely to overcome these realized limitations to provide in-depth findings about the complex nature of MCS-strategy relationships, as long as the idea of rational choice remains as the foundation of this approach. Central to the contingency approach is the fit-performance concept, which is intrinsically established on a presupposed assumption of economic rationality (Donaldson, 2001; Tucker and Parker, 2015). In its extreme, rational managers are expected to design appropriate MCS under the optimized strategy to achieve maximized performance and efficiency (Chenhall, 2003). However, the complete rationalities are quite likely to be limited in real work because of managers' subjective interpretation and bounded cognitions (Mintzberg, 1987; Quinn, 1980; Langfield-Smith, 2006; Tucker and Parker, 2014). In other words, performance efficiency may not be the primary or even predominant concern in strategic and managerial activities as managers' cognitive constructions contain various beliefs and efficiency may be just one of these beliefs. Moreover, the omission of a wider range of informal control in contingency approach seems difficult to be resolved through advanced measurement instruments, as managers' subtle perceptions are unlikely to be captured through rigid survey questions. In this regard, Langfield-Smith (2006) concluded that the positivism and survey-based contingency approach is difficult to capture in-depth evidence of managerial interactions. Rather than the outcome of rational choice, strategy and the relevant MCS are crafts designed by organizational actors.

From the perspective of theoretical development, while managers' beliefs may reflect their perceptions to the broad organizational needs under social phenomenon and institutional environment, many sociological theories may find their articulation in MCS research to provide more interpretive and critical explanations (Chenhall, 2003; Baxter and Chua, 2003). For example, based on the argument that managers would adopt MCS to meet institutional, political and social legitimacy needs which may be inconsistent with economic rationality, Tucker and Parker (2015) proposed the institutional perspective (Meyer and Rowan, 1977; Carruthers, 1995) as the replacement of contingency approach in examining MCS-strategy relationship. This view could be especially meaningful for Chinese related MCS research as the unique political environment, combining with the increasing pressure from market needs (from the diffusion of western knowledge), have created rich yet complex institutional contexts (Firth, 1996).

While the debate at the strategic perspective argued for the weaknesses of the contingency approach, criticisms from the cultural perspective mainly focused on the over-simplified treatment toward culture which further downplayed the effect of contextual factors in MCS design and use. The exclusively use of Hofstede's cultural dimensions has been identified as the cause of contradictory empirical findings, and researchers argued that it indeed reflected an unthoughtful treatment of culture, which is unable to capture the nature of cultural values and ignore the greater depth, richness and complexity of culture and cultural diversity in MCS research (Bhimani, 1999, 2006; Joannidès, Wickramasinghe and Berland, 2003). More precisely, Hofstede's studies have not considered the different forms within each cultural dimension, which failed to facilitate more in-depth studies to explain the distinctions of MCS design and use in different countries embracing similar cultural values. For example, Etemadi, Dilami, Bazaz, *et al.* (2009) utilizes Hofstede's approach to examine the cultural influences on management accounting development in Iran. Although they found the high level of power distance significantly results in the dysfunction of western management accounting system in Iran, this conclusion can hardly be referred to other nations deemed to be 'high power distance'. While Etemadi, Dilami, Bazaz, *et al.* (2009) explained high power distance in Iran as the reflection of the strict use of Islamic law, it is clear that the same factor cannot be ascribed to China. More to the point, the distinctive underlying assumption of what 'high power distance' means has not yet been discussed in the current Chinese related MCS studies. More precisely, when researchers implicitly accept the presupposed high hierarchical level as the consequence of Chinese power distance, their research direction is circumscribed to investigate the impact of hierarchy in MCS development in China (O'Connor, 1995; Tsui, 2001; Williams and Seaman, 2001; Jermias and Setiawan, 2008). However, the result-orientated nature of Hofstede's approach somehow leads to a dilemma in current research since the existing findings can only conclude that it is still way far to reach a convincing explanation about the impact of 'high power distance' on Chinese MCS development.

Furthermore, the over-simplified cultural typology indeed reflects a restricted conception of culture, which might be the most crucial weakness in current cultural MCS research. While Hofstede's conceptualization exclusively focused on the value dimension of culture, it would lead to distorted conclusions. Again, taking 'power distance' as the example, Hofstede (1980, 1984) defines it is the degree to which the unequal power distribution can be accepted or expected by the less powerful members of organization or institutions. A national culture that endorses high level of power distance reflects tolerance toward power differences, which in turn, would yield a dictatorial management style and autocratic leadership. However, it is problematic if identifying 'high power distance' as a characteristic of national culture since the given definition is solely value-based and result-oriented. In other words, the 'high power distance' is commonly understood as the equivalent of the highly hierarchical awareness; however, the emphasis on hierarchy could be a pervasive common knowledge within many nations and regions of the world, which is arbitrarily used as a representation of cultural differences. The presupposition of 'power distance' has even been challenged from the very fundamental level. For example, Smith and Hume (2005) compare the influence of 'power distance' among six countries which are assumed to be located at different positions of 'power distance' spectrum in Hofstede's classification. However, based on the survey responses of accountants in international certified public accountant (CPA) firms, this study states there is no difference of ethical belief among the accounting professionals since even those from 'low power distance' countries showed a high awareness of hierarchy. Smith and Hume (2005) explains that the international firms have their own well-structured hierarchy of authority and responsibility, in which case the underlying power distribution is well manifested to overwhelm the presumed 'power distance variable' and to influence individual responses in survey studies. This argument not only reflects that it is over simplistic to equate 'power distance' with 'cultural difference', but it also echoes Baskerville (2003)'s argument that rather than study culture, Hofstede's classification appears to focus on socio-economic values of the business world.

The extensive use of those dimensions further suggested the dominant culturalist theory (cultural contingency approach) in cultural MCS research would be problematic. The embedded 'value' perspective within culturalist approach is understandable as Hofstede's studies provided predefined and quantifiable cultural values, which greatly facilitated the culturalist research to locate, explain and predict social regularities and patterns, and then universalize their effects within MCS designs (Gibson, 1994). However, measuring national culture as a 'certain' independent value would make research face the 'risk of temporal anachronism' (Bhimani, 1999). More precisely, while societies are continuously changing over time, culture would also be altered and reshaped during the process. In this regard, the feasibility of transferring pre-identified dimensions from one study and applied to another is questioned. While the attention of culturalists is static toward cultural dimensions, they overlooked the influence of other social processes, institutional systems and aspects of societal changes on culture (Bhimani, 1999; Alawattage, Hopper and Wickramasinghe, 2007).

Bhimani's (1999) argument implied the limited or even incorrect understanding about culture in existing cultural MCS research, which called for knowledge in sociology, history and anthropology to be introduced in this research domain to unfold a greater complexity and diversity of culture (Harrison and McKinnon, 1999). For example, symbolic phenomena in terms of ritual, myth, history, metaphor, language and code are gradually identified as important constitutions of culture (Thompson *et al.*, 1990; Giddens, 1987; Alexander and Smith, 1993). However, a more significant implication may refer to as it helps us to relocate the position of culture in contextual research. The interactions between culture and other societal aspects within the changing process neither state that culture is a generalizable by-product of organizational structuring (the view of structural contingency), nor does it recognize that culture is a unidirectional and isolated element that effect organizational context (the view of cultural contingency). In contrast, it highlights the societal feature of cultural factors (Bhimani, 1999; Lane, 1989; Maurice *et al.*, 1980). In other word, culture would mediate between a variety of patterns in a society and simultaneously work along with them to generate national specificity. Hence, national specificity would underpin organizational specificities upon which contextual MCS research can find its articulation. The inclusion of societal dynamism and a wider range of social phenomena into MCS studies further support the proposition from strategic MCS perspective. While Langfield-Smith (2006) stated rather than economic rationalities, managers' multiple beliefs and perceptions determined organizational activities, the societal effect view (Bhimani, 1999) further explain the origin of organizational actors' behaviours as the interdependencies between individuals' actions and social institutions. In this sense, ideas from institutional theory have also been advocated in cultural MCS studies as "*it is indicative of the potential role of institutional influences at the level of industries, professions or nation-states in the shaping of organisational structure*" (Bhimani, 1999, p.427, Lane, 1995, Baxter and Chua, 2003, Wickramasinghe, Joannidès and Berland, 2010).

2.6 Summary of literature review

This chapter begins with an explicit review of the emergence of research in management control system, and the development of contextual MCS studies with the use of contingency approaches. From a more specific perspective, the MCS development in China has then been reviewed based on the timeline of the country's economic reform progress, in which extra attention was paid to the current status of Chinese cultural MCS research. Some meaningful conclusions could be made based on the reviews. Firstly, the definition and scope of management control system is continuously evolving. While several versions of MCS co-exist to recognize the different emphasises, meanings and functions of MCS, one shared notion is that a broad scope of MCS is needed to embody its interactive and inter-connective functions within an organization. Secondly, while the importance of contextual MCS research has been increasingly manifested alongside the more complex organizational environment derived from economic globalization, the broadened concept of MCS has convinced to attract research attention to the so-called contextual factors. Thirdly, Although research attention upon conventional structure-based contingency factors (e.g. environmental uncertainty, technology, organizational structure and size) have gradually shifted to investigate the relationship between MCS and organizational strategy or cultural influence, (Tessier and Otley, 2012; Berry, Coad, Harris, et al., 2009), a dominant, if not exclusive, use of contingency approach in context-related MCS studies has still manifested. This research trend has also been retained in China-related studies, which is especially displayed in Chinese cultural MCS studies since the culturalist approach (and its underpinning idea of Hofstede's cultural value) is still playing the dominant role.

Based on the review, this chapter further provides an evaluation of current contextual MCS research with an emphasis on contingency based studies. While the empirical problems are identified and greatly ascribed as the self-limitation and misuse of contingency approach, further criticisms have also been made from theoretical perspectives. Debates are mainly revealed in two aspects. Firstly, as the underpinning of contingency approach, the idea of "economic rationality" may not be applicable as the only assumption of managerial and operational behaviours, especially when individuals' cognitions, activities and their interactions with the broader phenomena are highlighted in current MCS conceptualisation. Secondly, culture has been oversimply treated as static and quantifiable values under the contingency approach, by which the dynamic societal feature of culture and its possible interactions with other societal effects have been overlooked.

Based on the review and evaluation of current contextual MCS studies, it is fair to state that although researchers have gradually realized the complex interplay between organization's behaviours and its social contexts, as well as the important role of individuals within the interactions, explicit understandings about how managers design and use MCS under contextual influences are still limited. In this sense, it is imperative to provide some possible alternatives not only for future research in contextual MCS domain, but also for the design and analysis of this particular study. Two possible alternatives will be explicitly illustrated and explained in the following chapter.

Chapter 3: Alternative approaches for this research

This chapter consists of two parts. The first section, from a broader sociological perspective, proposes 'contextualization' as an alternative approach for study in context, which includes illustrations of the importance of context, the concept of contextualization, and the use of this approach in management accounting research. The second section introduces the institutional theory as the promising framework for explicit explanation and analysis, in which the different facets of institutional theory, its theoretical links with management and accounting research, and its possible usefulness in Chinese context will be discussed.

3.1 Treating 'context' seriously – the future way of international accounting research

3.1.1 The importance of 'Context'

While many researchers criticized the weakness of positivism-based contingency approach, it indeed indicated that rather than rigorously classifying the context into some independent and static variables, some better treatment is needed to facilitate a more integrated understanding about the context.

'Context' is a quite broad terminology, and in Tsui (2006)'s definition, the components of the context within a particular phenomenon include its culture, its societal, political and economic system and their stages of development, which is complemented by its history, geography and all other element that have transpired over time to generate a particular context. Therefore, before expanding upon the detailed illustration about the source, content and implication of a given 'context', it is necessary to answer a basic question in the very first place - why 'context', especially one bounded by a nation, state or region, should be emphasized and deeply investigated in a management accounting and control study? The most straightforward explanation can be related to the research setting. While management accounting studies normally set out examine specific concepts and practices in given organization(s) or unit(s), such organization(s) or unit(s) would subject to an external environment, so the actions or behaviours are influenced by the elements within this environment (Tsui, 2006). Therefore, an understanding and explanation of research findings is hardly sufficient if the influence of context are be ignored or dismissed. This scenario is particularly manifested in the international or transnational studies since the context in the 'host' environment may largely different from the 'home' where these concepts and practices originate from (Tsui, 2006; Rousseau and Fried, 2001; Child, 2009).

Admittedly, the investigation about context and contextual influence is not a novelty in academia and practitioner circles but it is acknowledged that major gap remain in knowledge within the international accounting, management, and organizational research domains (Baxter and Chua, 2003; Tsui, 2006; Tsui, 2007; Rousseau and Fried, 2001). Rousseau and Fried (2001) discussed the importance of 'context' from the perspective of organizational studies. In their arguments, the accelerated tendency of internationalization in organizational research lead to questions about the travelling of social science models from one society to another. From the perspective of management research, Tsui (2007) echoes with Rousseau and Fried (2001)'s arguments by discussing the important role of context in future international management research. Rather than put the internationalization as the trigger, Tsui (2007) proposes that the irresistible trend of globalization largely contributes to the increased research focus on contextual differences. More precisely, Tsui (2007) states the changes generated from globalization, in terms of world exports increases, emerging economy growth and increased foreign direct investment, imply a great demand of management to operate business in global or emergent national context. To compare with internationalization, choosing 'globalization' as the explanation indicated a shift of attitudes towards contextual differences. To be more specific, on the one hand, Rousseau and Fried (2001) identify contextual difference as a force, which is expected to be passively accepted for the purpose of achieving theoretical and empirical generalization in different national settings. In other words, the process of internationalization is still dominated by sophisticated western ideas in which the contextual differences are assumed to be addressed through the research investigation; on the other hand, globalization indicate the interdependence among different nations, states or regions of the world, in which the equal opportunity is provided for each different context (Tsui, 2007). Under this proposition, the contextual difference is actively involved in the process of knowledge inquiry since the 'voice' of each context is expected to be heard and each kind of difference may contribute to the development of global management research.

The emphasis on the concept of globalization reveals the very fundamental yet the most debated question within contextual studies. The question refers to a choice between two research points of view, namely whether contextual differences can be eventually homogenized or remain to be showed in a pluralistic way. In an editorial paper, Tsui (2007) reviewed the management literature on context-specific topics – the term used to summarize management studies conducted within national context. The evidence shows although studies in emerging and less-developed nations are dramatically increasing, the quantity and quality of research remains to be improved when compared to others conducted in Western contexts (North American for example). Moreover, by combining with other literature reviews (Werner, 2002; Redding, 1994; Meyer, 2006; Leung, 2007; Li and Tsui, 2002), Tsui (2007) argues that the North American research paradigm still dominate context-specific international management studies in emerging countries such as China and other Asian countries, as well as in well-developed areas such as European countries. This research status implies that well-known and repeatedly studied American notions have been largely accepted as taken-for-granted patterns to be applied in those emerging contexts. A somehow more worrisome implication is both the experienced scholars and the newcomers in the context-specific management domains are still led to the 'safe' way by following the well-established theories and topics in a new context, which results in the increased homogenous tendency of American based approaches in current international study. Consequently, the over-emphasis on homogeneity may affect the reliability and accuracy of research findings. It downplays the value of other contexts in the process of developing management theories and applications in a globalizing world, and possibly leading to the marginalisation or ignoring of novel local ideas.

3.1.2 Contextualization – the way of treating contexts

To address the possible pitfalls within the homogeneous research mainstream, building pluralistic scholarship in management accounting seems an imperative (Tsui, 2007; Meyer, 2006; Gelfand *et al.*, 2007; Kirkman *et al.*, 2006). The pluralistic research is neither an opposition which plays against homogenous tendencies, nor is it refuting the evidence generated by mainstream research approaches. Pluralistic research may be fairly understood as the shift in insight into contextual differences, or quoting Tsui (2007)'s own statement –'treating the context in earnest" (p.1356). Pluralistic research encourages scholars in novel contexts to be more confident about discovering indigenous issues and outline theories that may enrich the meaning of contexts in international studies. In order to do so, an engagement with 'deep contextualization' is needed.

Derived from linguistics, Rousseau and Fried (2001) define contextualization as the way of associating observations in situ with the set of events, facts and points of view within the environment of a research location, whereby a possible theory or evidence is drawn from the links. Contextualization is thorough process at each stage of the research process from the question formulation to the research reporting, which is much more than a narrow description of the context within an entity or simply an exploration of how an entity (company, organization) reacts or interacts with its environment. Contextualization focuses on the multiplicity of context. More precisely, 'Context' is a set of logics that are particular to different domains or institutional sectors (Friedland and Alford, 1991). For instances, while context can mean cognitions at the basic individual level, it does change its form as mass media, religion, culture or the educational system shaping the values and beliefs at societal level. Due to the underlying diversity of context, the essence and purpose of contextualization is to incorporate the multi-dimensions of context in describing, understanding and theorizing about such phenomena (Tsui, 2007; Von Glinow *et al.*, 2004).

The contextualization approach is claimed to play an essential role in all the three stages of alternative international management research (Tsui, 2007). Firstly, a comprehensive understanding about context can be obtained through deep contextualization; then that contextual knowledge can be utilized to pursuing innovative management theory development, as well as formulating novel research questions and topics. More precisely, the premise of pursuing alternative international management research (according to Redding (2005) and Whitley (1992)) is that the economic and managerial behaviour of firms is deeply embedded in their socio-political-economic-historic contexts, therefore, replicating theories in new context may lead to biased conclusion if the new context differs from the one that the theories were developed. Based on this argument, the significance of contextualizing theories in novel context is well-reasoned because the explanation of local phenomena through deep contextualization may address the limitation of original theories and improve them to be made appropriate (if at all relevant) to local needs. However, despite the positive role of contextualization in theory application and borrowing, a more significant meaning of contextualization is the emphasis on the value of indigenous knowledge in international theory development. Tsui (2007) argues the best way of obtaining indigenous knowledge is to coordinate with native or local scholars (Peterson, 2001). The reason is quite clear since an identical phenomenon may be an unknown field to a foreigner but at the same time 'common sense' for local people. Contextualization requires local scholars to actively participate in provide valuable insights from indigenous views, as well as re-examine the analysis of phenomena through their reflection towards common knowledge.

The increased involvement of local intelligence offers greater opportunities to generate innovative theories and inquires, which has been advocated as the most important function of contextualization in context-specific research (Whetten, 2009; Tsui, 2007; Child, 2009; Barney and Zhang, 2009). For an instance, based on Chinese management scholarship, Whetten (2009) appeals to scholars to shift their attention from the 'systematic borrowing' of western notions to "*return something better to the literature*" (p.47). In order to do so, Whetten (2009) suggests Chinese scholars should start from the investigation of indigenous cultural and societal contexts and develop alternative theories through deep contextualization. Moreover, the development of a new theory is in parallel rather than opposite of the 'theory borrowing', whereby the contextualization can be implicated in both way of theorization. As Tsui (2007) concluded that contextualization is an extra layer of theorization, which may not only yield innovative theories but also inform and improve management practices in general.

3.1.3 Contextual studies in accounting research

By narrowing our focus from the general management to international accounting research, the increasing emphasis on contextual differences also appeared in recent studies (Baxter and Chua, 2003; Heidhues and Patel, 2011). Although the term 'contextualization' is merely specified, the appeal for detailed descriptions and critical examinations of the local environment, and analysis of relationships between local differences and applications of general accounting theories and practices, indicated the core meaning of contextualization has been captured in this research domain (Barrett, Cooper and Jamal, 2005; Samsonova, 2009; Gallhofer, Haslam and Kamla, 2011). For example, Heidhues and Patel (2011) critically evaluate the use of Gray's framework on accounting values within Germanic cultural contexts. In their case study, they state the unquestioning and uncritical acceptance and application of Gray's framework leads to the prominence of this framework in international accounting research without major critical evaluation of the theoretical and methodological limitations. They argue the 'oversimplification' of Gray's framework because the underlying cultural elements within accounting value dimensions failed to capture the complexity and dynamics of culture. Through an explicit description of the legitimacy of 'secrecy' of financial disclosure in Germany, the specific cultural value of 'confidentiality' is emphasized, which differentiated Germany from other cultural contexts. The role of contextualization in accounting research was also found in some less studied or emerging countries. For instances, Gallhofer, Haslam and Kamla (2011) focus on the development of the accountancy profession in Syria from the views of local accountants, and provides a detailed description about a post-colonial, Middle Eastern and Islamic context. Samsonova (2009) investigates in the evolution of an auditing legislative framework in Russia. Through the observation and evaluation on policy making procedures, this study claims the local context play a profound role in shaping international practices to fit the local need.

The concept of contextualization has also been introduced in management accounting research (Hopper *et al.*, 2009; Alawattage *et al.*, 2007; Vollmer, 2009). Hopper, Tsamenyi, Uddin and Wickramasinghe (2009) systematically reviewed and evaluated the existing management accounting studies conducted in less developed countries, and formulated valuable suggestions for the future transformation of management accounting and control in developing countries. The authors argued it is imperative to envisage that the transformations of management accounting system in those novel countries are "*contextually encircled, historically evolved, and socially constructed.*" (p.476). Based on this argument, a cultural-political-economy framework was formulated to provide a comprehensive understanding about local contexts and the linkage with management accounting development. Hopper, Tsamenyi, Uddin, et al., (2009) drew a picture about the possible regimes that can be contextualized in future MAS research in developing countries, in which scholars are able to investigate economic contexts in terms of the mode of production (MOP), labour and capital market, the societal context such as cultural diversity, ethnicity and race, and the political context including political ideology, regulation and law, and policy making. The authors concluded that the premise of MAS research in developing countries is to understand and facilitate local needs rather than dictate MAS from developed countries.

Aside from the instructive use of contextualization in management accounting research, perhaps a more profound implication is that the concept of contextualization promotes the 'identification' of management accounting. While the social functions of management accounting are further outlined, an increasing number of scholars have accepted this research subject as a social science (Alawattage *et al.*, 2007; Vollmer, 2009). In the publication of "*management accounting change: approaches and perspective*", Wickramasinghe and Alawattage (2007) provide an explicit narrative about management accounting changes, in which accounting techniques and perspectives, practices and investigations are contextualized within their broader socio-historical context. The historization of management accounting broadened researchers' view which allows them to evaluate management accounting changes through various technical, social, organizational, cultural, ideological or theoretical aspects across the time and space (Vollmer, 2009). The reappearance of historical social-technical and social-economic relations, alongside with the influences and contribution of social science to management accounting practices, acknowledged the complexity of management accounting with its social boundaries, and reaffirmed the significance of management accounting as a social science, rather than a set of practically applicable tools and techniques (Alawattage *et al.*, 2007).

The above section elaborates the necessity and appropriateness of introducing the concept of 'Contextualization' into future management accounting and control research. Furthermore, it is also imperative to identify some more comprehensive theoretical frameworks, since which will help with the explanation and analysis of specific interactions between context, MCS design and use, and the related managers' activities. Therefore, the following section will evaluate the key thoughts from institutional perspective and discuss how this theoretical stream would be appreciated in future management accounting and control research.

3.2 Institutional theory – a new perspective of MCS explanation

3.2.1 Early stage of institutional theory

Formed as a sociological notion, the most potential and compelling feature of institutional theory refers to its great variations in concept, in which 'institution' and 'institutionalization' have been defined in various ways that reflect different opinions on specific questions (Scott, 1987). Therefore, before approaching institutional theory, it is necessary to have a clear understanding about the diversity of institutional concepts by reviewing its development over time.

As the earliest version of organizational-based institutional theory, Selznick (1957) define organizational structure in terms of both its characteristics and commitments of its inner participants, and the influence and constraints of external environments, which in turn are shaped by and adapted to these internal and external factors. In this sense, institutionalization is identified as a process of organizational adaptation, in which specific 'values' would be infused in organizations. More precisely, Selznick's definition emphasizes institutionalization as a mean of 'value instilling', by which instinct worth would be added to organizational structure for helping them transcend their simply instrumental utilities, and concurrently, improving organizational stability and persistence. Selznick's (1957) argument profoundly influenced the development progress of institutional theory. On the one hand, their explanation clarified institutionalization is a lasting 'process'. Rather than being unplanned and unintended, this process can be consciously designed and enacted; therefore organizations' distinct values are able to be preserved. On the other hand, they proposed the organization as a competent vehicle to reflect the complex process of institutionalization, which paves the way for further studies to investigate the interaction between institutions and organizations.

Selznick (1957) made great efforts on linking institutional perspectives with organizational studies. However, as a tentative approach, they only described and defined institutionalization but did not explicitly get out the process. For example, their theory did not answer what accounts for the values that to be instilled through institutionalization. The subsequent scholars in terms of Berger and Luckmann (1967) proposed an alternative perspective by defining institutionalization as a process of creating reality (Scott, 1987), in which the main contribution refers to identifying 'instilled values' as social order. These orders are constructed by human through social interactions, which simultaneously make human behaviour to correspond with social activities. In other words, social life and the concomitant human interactions indicate that individuals are experiencing an on-going course of self-externalization, by which social orders are formed to interpret individual activities and help such interpretation to be shared with others. Based on the formation of the social order, or namely 'typification' (Berger and Luckmann, 1967), individual's various activities are able to be classified into different kinds of shared meanings, which in turn facilitate people to respond in similar fashions in social life. In this sense, Berger and Luckmann (1967) identified institutionalization as a social process which, quoted their own words, *"represent a paradox that man is capable of producing a world that he then experiences as something other than a human product"* (p.61). This notion significantly influenced future work and constituted a common feature of any version of institutional theory used in current studies (Meyer and Rowan, 1977; Tolbert and Zucker, 1983; DiMaggio and Powell, 1983; Scott, 1987, 2002; Thornton, Jones and Kury, 2005). Consequently, individuals come to accept the shared definitions of social realities only if such realities have been institutionalized. Institutions are then created as taken-for-granted norms defining ‘the way things are’ and/or ‘the way things are to be done’, which transcend individuals’ views and actions.

3.2.2 New institutional sociology (NIS) perspective

Berger and Luckmann (1967)’s insightful conception greatly expand the boundaries of institutional research by manifesting its significant role in constructing social reality, however, this definition seems too general to explain the specific characteristics from an organizational perspective (Scott, 1987). Therefore, a more specific view has been proposed to identify organization as a unique institutional form (Tolbert and Zucker, 1983; Meyer and Rowan, 1977), by which the general social construction and its concomitant shared social realities can be explained within organizational environments.

The start of NIS - rationalized myths and decoupling

The most influential study within this version of institutional theory refers to Meyer and Rowan (1977). This study accepted Berger and Luckmann (1967)’s notion of the typification of social construction, but also introducing Max Weber's ideas of the legitimacy of rationalized formal structures (Gerth and Mills, 2009; Weber, 2009). They proposed that the organization, as one kind of formal structure, is able to produce powerful rules to define and interpret the unique organizational environments. While these rules were specifically institutionalized in a formal organization, alternative types of impersonal rationalities would be generated whereby the organization can circumscribe itself from other social forms, and the organizational activities are also distinguished from the general social activities.

Mayer and Rowan (1977) further described such organizational rationality as myth and ceremony. They argued that institutional rules not only reflect the general social realities, but were also supported by external authorization. In this sense, organizational institutions represent a kind of taken-for-granted social obligations which are expected to be incorporated by organizational actors via institutionalization, irrespective as to whether those institutions fit organization’s technical and operational demands. Therefore, institutions operate as rationalized myths, which transcend particular organizations’ own evaluation by directing them to act in predetermined 'rational' ways. However, although rationalized myths determine formal organizational structure, Meyer and Rowan (1977) suggested that incorporating rationalities is not a compulsory process. In other words, due to the more complex and interconnected relational networks within modern societies, various kinds of rationalized myths emerge to be specifically codified in certain organizational contexts. In this sense, organizational activities under same industries would be evaluated by somewhat identical views generated from in terms of laws, educational systems, and public opinion. Therefore, while rationalized myths reflect social acknowledgement and external appraisal, legitimacy is able to be achieved through institutionalization, which ensures organization's stability and survival, as well as increase the chance of success.

Meyer and Rowan (1977) stated that rationalized myths essentially result in the sophistication and diversification of modern organizations. For example, from the business perspective, such myths define appropriate functions of business practices in terms of sales, productions, accounting and advertising. Specifically, technical procedures such as accounting has also been institutionalized as a taken-for-granted means, which becomes a necessary part of modern organization in order to achieve not only efficiency, but also appropriation, rationality and modernity. This idea provides an institutional insight for viewing the rationalities of management and accounting systems in contemporary organizations, which significantly differs from the technical functionalist traditions (Scott, 1987; Scott, 2002; Scott, 2008; Carruthers, 1995; Whitley, 1999; Burns and Scapens, 2000; Lukka, 2007). More precisely, the traditional scholarship identified accounting practices as the means-ends techniques that are used for ensuring organizational resource exchange, controlling work processes and achieving efficiency. In this sense, accounting dysfunction would be merely attributed to the inappropriate use, or imperfect adoption of technical artefact, by which researchers felt reluctant to explain the inconsistency between accounting and other organizational structure. This is of particular interest when one is concerned with the accounting diffusion in an international setting.

A more appropriate explanation is likely to be achieved from the institutional perspective by identifying accounting and control systems as the outcome of institutionalization. Meyer and Rowan (1977) argued that the structural inconsistency, rather than a problem, is indeed a normality of organizational life. In other words, since institutional rules are generated from various parts of external environment, the possible inconsistency among rules are inevitable, which further results in the conflicts between institutional rules and organizational activities. 'Decoupling' is generated as the means for solving those conflicting problems by achieving a trade-off between organizations' institutional and practical demands. More precisely, decoupling refers to a loose linkage between elements of structure and activities within organizations. On the one hand the rationalized myths have been followed in order to achieve standardized, legitimating and formal structure, on the other hand the functions of those formal rules would simultaneously be buffered in practical work since the organization need to ensure their activities are not influenced by inconsistency-related conflicts. Meyer and Rowan (1977) further explained that although a decoupled organization may seem to lack coordination and control, it is unlikely that chaos will ensue in practice because the normal procedures of organizational activities will remain orderly.

The concept of decoupling has been extensively introduced into various perspectives of accounting research, whereby accounting practices have been seen as a vehicle for constructing organizational reality (Carruthers, 1995), highlighting how various types of management control systems merely reflect financial systems, state structures and policies (Whitley, 1999; Lukka, 2007). Furthermore, Meyer and Rowan (1977) state decoupling is always used along with, and complemented by the logic of confidence and good faith. They argued that in order to maintain the formality of rationalized myths, ceremonial management is needed to build an aura of confidence within and outside the organization. More precisely, confidence is greatly achieved through face maintenance, which means organizational participants are prone to avoid problems, act discretely, and overlook anomalies (Goffman, 1967). Therefore, the individuals' 'face' can be saved by reinforcing their confidence in the organization and their faith in rationalized myths. This explanation, along with the idea of decoupling, essentially reflects a unique characteristic of institutionalized organization – the logic of good faith indicate individuals will appreciate and appropriately play their own roles in organization, by which a harmonious environment is formed under lenient organizational strategy. Arguably, this idea seems quite pertinent for the Chinese organization though it may not exclusively apply to this specific context. When tracking back to the traditional idea of Confucianism and the robust institutionalization of state-owned enterprise in China, this is manifested in terms of ‘harmony’, ‘duty of people’ and ‘benevolence’ that are implied in organizational activities.

Meyer and Rowan (1977)’s study profoundly influenced the progress of institutional theory development. The most important contribution refers to a clear distinction between institutional and technical elements of organizational environment. From an institutional perspective, the emphasis has been shifted to investigate cultural elements in terms of normative beliefs, symbolic and cognitive systems (Scott, 1987). Through the introduction of rationalized myths, these macro elements have been further defined as vehicles for reflecting various social purposes, which simultaneously result in organizational differentiation and isomorphism. In this sense, new institutional sociology (NIS) seeks to explain the different types of the institutionalization process, whereby the nature of various belief systems, rather than the process per se, account for the main research proposition.

Institutional isomorphism and external effects

The most well-known classification of the institutionalization process is associated to the work of DiMaggio and Powell (1983). This study echoed with Meyer and Rowan (1977)’s idea that the different origins of rationalized myths result in various types of organizational structures. However, rather than focusing on the diversity of structures, their main proposition was to consider why organizational structures are so similar (organizational isomorphism). They explain that organizational fields (such as industries/sectors) are formed as the result of institutionalization, whereby organizational structures in the same field would be influenced by each other, and therefore they converge to reveal the underlying rationalities of certain field.

DiMaggio and Powell (1983) propose three mechanisms for organizational isomorphism. Firstly, coercive isomorphism refers to externally formal or informal pressures as the powerful forces for organizational change, in which legitimation is the main motivation for complying with such external expectations. DiMaggio and Powell (1983) further indicated that overwhelming power from rationalized states and large-scale organizations have dominated most realms of social activities, and therefore, coercion largely derives from government policies, laws and regulations. Secondly, mimetic isomorphism is generally recognized as an organization's response to uncertainty. This mechanism portrays that organization would apply emulation as a strategy to adapt to uncertainties in terms of technical difficulties, unfamiliar organizational environment and fuzzy objectives (March and Olsen, 1976). Since the organizations may learn from the most 'successful' or 'legitimate' ones in their field, the imitable structures can result in isomorphism. Thirdly, normative isomorphism originates from the social norms which can be attributed to increasing professionalization in modern societies. As the ultimate form of social division of labour, the profession becomes a crucial criterion which not only determines the future of individuals in organizational life, but also outlines the formal procedure of recruitment and assessment in organizations. DiMaggio and Powell (1983) argued that professionalization has been reinforced by two significant social systems. The first refers to the legitimized educational and training system which acknowledges the profession as the basic cognition of educational arrangement. The second relates to the development and penetration of cross-boundary professional networks in terms of certification bodies, consultants and associations. The prevalent systems cultivate a number of professional individuals who shared similar values, management mechanisms and characteristics and they are even exchangeable among organizations. Therefore, while organizations are bundled with professional individuals, they are inevitably influenced by the underlying social norms, and foster directly or indirectly isomorphic behaviours.

DiMaggio and Powell's (1983) idea of isomorphism essentially suggests that organizational structures, processes and activities within certain organizational fields are predictable. This view somehow asserts 'stability' as the primary feature of institutionalized organization. Furthermore, through the introduction of three types of isomorphism, DiMaggio and Powell (1983) complemented the idea of rationalized myths by asserting the origins of these myths, why they become powerful and how they permeate in an organization's internal structure. Therefore, it is understandable why this version of institutional theory has been extensively used in management and accounting research (Moll *et al.*, 2006; Burns, Ribeiro and Scapens, 2006).

In a summarized review, Moll, Burns and Major (2006) states that NIS has resulted in at least three research genres in the accounting discipline. The first strand refers to the macro institutional impact on accounting system within an organization's construction. Scholars identified institutionalized beliefs and rules as the principal source of creating and adopting accounting systems, standards and practices, by which these accounting artefacts could meet the expectations of government, professional associations and public opinion. Various institutional forces have been found to be closely associated with different accounting facets. For example, some studies showed the relationships between economic constraints and performance measurement systems (Hussain and Hoque, 2002), the political and cultural implications on the introduction of new management accounting systems (Collier, 2001), and the gaps between the formality of accounting systems and managerial commitment (ter Bogt and Jan van Helden, 2000).

The second stream focused on the intention and competence of organizational fields in institutionalizing accounting artefacts. In accounting research realm, duality between organizations and their institutional environments was defined and its core values were mainly explained through the different, sometimes conflicting roles of nation and professions in structuring organizational fields (Moll, Burns and Major, 2006). Studies in this line were greatly focused on the surveillance and authority facets of accounting. For example, Carpenter and Feroz's series of research indicated organizational group interests, power relations and professions are likely to influence the adoption of auditing procedures and accounting standards, which is not only interplayed, but also collided with governmental intentions (Carpenter and Feroz, 1990; Carpenter, 1991; Carpenter and Feroz, 1992; Carpenter and Feroz, 2001). From a specific management accounting perspective, Modell (2001)'s case study found loose coupled performance measurement practices within the case organization. However, rather than being consistent with Meyer and Rowan's (1977) notion of decoupling as a ceremonial process for maintaining myths, he argued the loosely coupled measurement practices and goals increased organizational stability by mediating the possible conflicts between constituents in the organization. In this sense, he proposed an alternative explanation of the emergence of decoupling, in which the organization's central actors' passivity and resistance were emphasized as the main cause.

The third cluster of research followed the origin of institutional idea in order to investigate the legitimating attributes of accounting systems. While several studies stated accounting systems as socially bounded vehicles, which are designed and developed to enhance organizational legitimacy (Bealing, 1994; Fogarty, 1992; Fogarty *et al.*, 1997), and/or to justify the rationality of an organization's control package (Abernethy and Chua, 1996), recent attention has considered the legitimating function of accounting systems in non-western contexts. The shift of focus is largely attributed to the possible different assumptions of underlying accounting rules and procedures in the western vs. other parts of the world (Scott, 2013). In other words, since modern management and accounting systems are dominated by the western idea of modernization, the use of such systems in certain non-western nations is primarily for gaining legitimacy. As such, performance improvement and efficiency would be less relevant following the adoption of accounting systems due to an inappropriate appreciation of the underlying assumptions in these contexts (Hoque and Hopper, 1994; Alam, 1997; Rahaman *et al.*, 2004).

Based on these NIS-based international accounting studies, it can be argued that the macro perspective of institutional theory enriched our understanding about the problems and difficulties with the diffusion and adoption of accounting systems. For example, drawing on the notion of institutional isomorphism (DiMaggio and Powell, 1983), Firth (1996) states that management accounting mechanisms in Chinese companies have gradually moved to a western model because the government policies of economic reform somehow exerted coercive pressure for companies to seek more sophisticated MA systems to cope with the path of marketization.

3.2.3 Old institutional economics (OIE) Perspective

A bottom-up perspective - institutional actions

Notwithstanding the insights above, some studies have criticized that the NIS approach only provided a partial picture of institutional theory, thereby restricting its explanatory potential (Greenwood and Hinings, 1996; Lounsbury, 2008; Scott, 2004). The latter authors argue that NIS mainly focuses on institutional environments (i.e. extra-organizational factors), and identify institutions as top-down structures which unilaterally exert influence on organizations. Therefore, the proposition of a static 'institutional effects' model overlooks intra-organizational actions and internal actors' responses vis-a-vis the environment they are involved in.

Scott (2004, 2008) explicitly discussed that the dynamism of an organization per se in the process of institutionalization has always been considered since whether organization can be identified as a unique carrier of institutionalization is dependent on how organizations spontaneously and strategically respond to the various institutional pressures and legitimating needs. Rather than being overlooked, this idea has actually been reflected in DiMaggio and Powell (1983)'s work as they highlighted a few large organizations that are so powerful they can shape rather than adapt to the external environment. The crucial problem is that although NIS-based studies acknowledged organizational autonomy, they believe it is likely to be overwhelmed by broader factors, i.e. organizations may have the choice but their options are presupposed.

In this regard, some studies have considered whether the diversity of intra-organizational characteristics may result in different processes of institutionalization of accounting systems (Bergevärn *et al.*, 1995; Covaleski and Mark, 1988; Modell, 2001). In this sense, Scott (2004, 2008) advocated that more thoughtful version of institutional theory is depended on an interactive model, which needs to envisage the potential of organizational actors in reconstructing their surrounding environments. This proposition implies a shift from institutional effects to institutional processes. In other words, institutionalization has been recognized as a recursive model occurring from both directions, in which 'bottom-up' influences have also been acknowledged to supplement or replace existing top-down effects, or in brief, leading to an essential tenet of old institutional economics (OIE).

The processual feature of institutional changes and institutionalization

OIE was established to challenge dominant ideas of mainstream economic theories in terms of the assumptions of rationality, optimization and market-equilibrium (Veblen and Boulton, 2010; Veblen, 2005). In this sense, it shares some of the basic rules with NIS as the former also defined institutions as social constructions and its analysis similarly relates to the influence of rules, habits, routines, norms and taken-for-granted assumptions (Hodgson, 1988; Burns and Spacens, 2000).

The divergence is while NIS focuses on the effects of extant and given institutions leading to a somehow static imposition, OIE is more concerned about the possible changes of taste and preference of individuals (or group of individuals) under such influence. From this micro perspective, OIE emphasizes the processual nature of institutionalization, in which particular behaviours and structures, rather than existing at certain point of time, cumulatively emerge, sustain and/or change over time. Thus individuals' taste and preference are continuously shaped and reshaped within the process. From an organizational level, OIE specified the habitual and routinized nature of business practices as a reflection of institutional influences (Nelson and Winter, 1982; Moll *et al.*, 2006). Therefore, while such routines underpinned the commonly appreciated knowledge of firm's knowhow, they direct but also reflect individuals' choice and decision-making over time in order to cope with a multiplicity of institutional influences.

The notion of OIE has been increasingly referred as a dynamic alternative for explaining accounting institutionalization and one of the most significant frames to understand accounting systems and practices (Scapens, 2006). While an increasing number of scholars have acknowledged that accounting as a socially embedded entity carries and reflects social realities, its technical functions cannot be overlooked since accounting as an artefact is purposefully initiated to produce information and achieve economic goals, as especially manifested in for-profit firms responding to prevalent market forces (Scott, 2002; Moll *et al.*, 2006). The inherent duality of accounting indicates it is impossible and unnecessary to separate its technical and institutional nature. As Carruthers (1995) stated, the conflict between institutional and technical perspectives is overemphasized since in real work setting "*institutional processes are routinely disguised as technical ones*" (p.318), which in turn resulted in changes of accounting practices. In this sense, the emphasis on the micro perspective in terms of organizational actors or agency reintroduces and incorporates technical explanations into the institutionalization process of accounting systems. Furthermore, researchers argued that no matter for what purposes certain techniques are selected and implemented (i.e. for the purpose of decoupling or efficiency), its effectiveness in organization must be supported by a sanctioning power (Moll *et al.*, 2006). Therefore, this line of research greatly highlights two assumptions, namely the changeable and processual features of institutionalization, and the role of power and interests of an organization's agent (group and/or individual participants) in the change process.

Both features are revealed in several studies of MA practices and their change process (Burns, 2000; Burns and Scapens, 2000; Dillard *et al.*, 2004; Yazdifar *et al.*, 2012). Based on OIE, Burns (2000) tentatively teases out the complex and changing interactions among new, imposed accounting practices, routines, institutions, power and politics. In order to do so, his primary assumption refers to the implementation of accounting practices as a routinizing process. As Burns (2000) stated, while institutions generates rules (such as management accounting procedures) which implies a common way of thinking and doing, routines would emerge as the programmatic behaviour to repeatedly follow the adherence to such rules. Therefore, routines per se are defined as the common habits over time, which eventually become part of the components of institutions. Based on this premise, the introduction of OIE is useful since it can explain the change process in accounting routinization.

However, Burns (2000) argued that not all accounting practices can be routinized and even the outcomes of routinizing new accounting practices are unpredictable since they can vary in different context within and outside of particular organizations. Relatedly, the concepts of power and interest within OIE notion have been proposed as central ones in determining whether (and how) a certain accounting practice is routinized.

Power and interests within institutionalization

Burns (2000) elaborates a relationship between politics, power and interests. While politics has been extensively documented as one of the most significant triggers for organizational and managerial change, Burns (2000) argued that politics generally flow from 'interest-based demands' and are prone to satisfy the policy maker's own needs (Pettigrew, 1972; Buchanan and Badham, 1999). The inherent features of politics inevitably result in resistance and conflicts during enactment since a clash of interests would emerge among individuals from different hierarchical levels (Astley and Sachdeva, 1984). Therefore, the effects of certain politics and the concomitant opportunities for change greatly depend on how individuals acting their power. This statement somehow demonstrates a possible way of explaining accounting change within the institutionalization process, in which various possibilities of interplay between interests and power may occur and lead to different outcomes such as accounting success, dysfunction and decoupling. Furthermore, drawing on Hardy's (1996) concept of power and political mobilization, Burns (2000) explicitly lists four possible routes how power influences accounting change. More precisely, power over resource, power over decision making and power over meanings respectively indicate that changes can be facilitated (or resisted) by task-oriented persuasion and/or coercion, a hegemonic decision making process, and the influences on actors' perceptions, cognitions and/or preferences. For the last dimension namely power of system, Burns (2000) explains it echoed with institutional concepts in that power can be generated from belief systems and taken-for-granted norms to influence accounting change. While these institutional powers generally reflect the pre-existing routines and are supported by the individuals' professions and experiences, they dramatically constrain the possibility of change. In this sense, Burns (2000) believes although all the four types of power mobilization could either facilitate or hinder accounting change, it is likely that resistance would be mediated if changes are able to be compatible with existing institutions. As a combination of OIE and power mobilization concepts, Burns's (2000) work greatly reveals the dynamics of intra-organizational interactions in the process of institutionalization.

The follow-up study of Burns and Scapens (2000) refined the previous work, in which their valuable insights and contributions can be summarized in several aspects. Firstly, starting from the previous discussion about the role of rules and routines in organizational life, they re-emphasize the two-way relationship between rules and routines, in which both the two elements are likely to be produced and reproduced during the process of institutionalization. However, while routine is cumulatively changing over time, rules generally follows discrete time intervals. As Burns and Scapens (2000) states, while stability and change can occur simultaneously, they are not mutually exclusive processes. Secondly, by recognizing 'institution' and 'action' factors as the outstretched yet deeper implication of rule-routine relationship, they suggest that institutions are simultaneously shaping and being shaped by actions, which essentially reflect the duality of agency-structure relationship. Therefore, their framework facilitates the structuration theory

(Giddens, 1987) to be incorporated in institutional discussion, by which a specific roadmap of institutionalization process is obtained. In this sense, the abstract notion of interdependently producing and reproducing structure and action are able to be explained in a more visible way, as changes of rule and routine. Thirdly, the rule-routine interactions have been further specified to include the formal-informal management accounting systems. More precisely, the causes of divergence between informal and formal MA practices can be explained by a practical resistance towards routinization, which is in turn associated with participants' interest, capacities and subjective judgement. Lastly, based on the previous ideas, Burns and Scapens (2000) further proposed a dichotomy of management accounting change under institutionalization. While revolutionary and evolutionary changes indicates a different disruption (major to minor) to existing routines and institutions, regressive (or progressive) changes refer to whether management accounting change is took place in ceremonial (or instrumental) courses. The main purpose of such classification is to display the different possibilities of management accounting change, by which the authors emphasize that the specific institutional context of a single organization can influence the use of particular approaches, which in turn determine the outcomes MA change. In other words, organization's strategic choices are various but limited by institutional rules, and thereby the changes are more likely to emerge in a path-dependent way.

3.2.4 Neo-institutional perspective

The above sections explicitly illustrated two streams (NIS and OIE) of institutional thought. It is clear that each thought is advocated, discussed and applied in empirical studies, which profoundly influence the development of institutional theorization. However, it is also noticeable that criticisms are always made and led researchers to embrace an unbiased attitude towards the two thoughts.

As a more traditional and prevalently used approach in management accounting studies, NIS has been frequently challenged in three aspects (Yazdifar, Zaman, Tsamenyi and Askarany, 2008; Burns, Ribeiro and Scapens, 2006). The first criticism refers to the deterministic nature of NIS, which portrays organizational environments as overly passive and constraining (Oliver, 1992). In this sense, the activity of organizational players and the interactions within power and interests at micro level are neglected, which in turn result in difficulties for investigating the process of institutionalization (Burns, Ribeiro and Scapens, 2006). The second criticism mainly focuses on those studies which heavily rely on the idea of "rational myth" (Meyer and Rowan, 1977). Researchers argue that it is problematic to exclusively identify formal structures and procedures as symbolic institutions to achieve external legitimacy. Because once institutionalized, these structures and procedures inevitably imply certain taken-for-granted values which will underlie organizational behaviours and individual actions (Tolbert and Zucker, 1996; Burns, Ribeiro and Scapens, 2006). The third criticism is particularly emphasized by studies in management accounting change. More precisely, researchers argue that because NIS only focuses on change at an extra-organizational level (Dillard et al., 2004; Yazdifar et al., 2008), it is incapable to capture the path of change in the organizational realm and unable to explain the changing process.

Relevantly, the use of OIE in management accounting research received less criticisms, and debates are mainly focused on how to improve and expand the use of Burns and Scapens (2000)'s framework (Arroyo, 2012; ter Bogt and Scapens, 2014; de Araújo Wanderley, Miranda, de Meira and Cullen, 2011; Alsharari, Dixon and Youssef, 2015; Börner and Verstegen, 2011). For example, Arroyo (2012) states that although OIE approach greatly contributed to a rich examination of the change process of management accounting, it failed to analyse the role of external pressures in the process. Börner and Verstegen (2011) argue that while OIE is able to capture the resistance to changes in organizations, it is difficult to explain what the change itself. As quoted that "*OIE remains the idea that institutionalized routines in an organization are subject to change, but they do not comprise change itself*" (p.307). Those recent studies emphasize that the micro perspective derived from OIE provides a partial explanation of institutionalization, which need to be complemented by the macro view of NIS. This argument is consistent with the original purpose of introducing OIE perspective as it is expected to complement NIS by providing an explicit explanation of internal organizational dynamics (Scott, 1987, DiMaggio, 1988, Yazdifar et al., 2008). Therefore, it is imperative for researchers to understand that rather than independently used, OIE approaches should be perceived within the same assumptions of NIS and adopted complementarily.

In other words, it is noticeable that although OIE-based MA studies greatly focused on the micro perspective of institutionalization, they have not ignored the macro aspects. For example, an idea that is repeatedly mentioned in these studies can be summarized by this quote - "*serious consideration has to be given to the local institutional context where the management accounting change is to take place … and this can mean lower level contexts in terms of departmental or functional, as well as the wider organizational and external contexts*" (Burns, 2000, p.588). On the other hand, it is also manifested that micro factors, especially the interest conflicts, had always implied in NIS-rooted explanations. A compelling discussion can be tracked back to Dimaggio (1988)'s overview of institutional theorization. Although his work has always been positioned at the most macro end of institutional spectrum, he warned that the idea of institutional isomorphism (Dimaggio & Powell, 1983) had been over-interpreted and exaggeratedly understood as helpless and slack individuals inevitably comply with the ruthless social processes. In this sense, he argues although group and individual interests may be selectively deployed in such over-interpreted explanations, individuals are still capable to play an active role in the general process of isomorphism.

Therefore, it is fair to state that researchers from either school of thought has acknowledged that the two lines of institutional theorization are complementary (Scott, 2008; Lounsbury, 2008; Burns, Ribeiro and Scapens, 2006; Yazdifar *et al.*, 2008), whereby a more convergent perspective (i.e. neo-institutionalism) is emerged as the evolutional progression of institutional theorization.

An integrated perspective

Neo-institutionalism represents an integrative approach for institutional theorization within recent management accounting and control studies (Burns, Ribeiro and Scapens, 2006; Siti-Nabiha and Scapens, 2005; Dillard *et al.*, 2004; Lounsbury, 2008; Lukka, 2007). More precisely, those neo-institutionalists neither deny the institutional stability due to socially taken-for-granted norms and arational mimicry, nor do they reject the possibilities for changes that resulted from organizational and individuals' dynamic activities. In other words, although these studies investigate different organizational settings and management accounting practices, under a compatible and interactive model they acknowledge the complementary nature of OIE and NIS explanation in terms of the coexistence of stability and change and the interdependency of rules and routines. While neo-institutionalists agreed that the institutions are inclined to change; they also claim that the process is gradual and path-dependent on existing institutions. Moreover, while neo-institutionalists directly bridge the macro and micro perspectives of institutionalization, it breaks the traditionally circumscribed boundaries among organizational environment, organizational field and single organizations, by which more dynamic explanations can emerge by evaluating the possible interactions between socio-economic and individual aspect. For example, Burns, Ribeiro and Scapens (2006)'s case study suggests while management accounting rules and routines are underpinned by institutions, such institutions are not necessarily reflecting the taken-for-granted notions at cognitive level, which can also hold by very solid relations of power.

Neo-institutionalism and cultural explanation

However, at the last there is an important issue need to be discussed, which refers to how national culture could be explained under the neo-institutional framework. Given the emergence of transnational organizations, researchers have increasingly identified cultural diversity and its effects as the important constituent of heterogeneous organizational structures and practices in different locations. However, it is somehow paradoxical that culture per se has not been seriously addressed in institutional analysis. For example, informed by neo-institutionalism ideas, Cruz, Major and Scapens (2009) made great efforts to explain the institutionalization and the variations of management control system within a global/local setting. This work shows how loosely decoupled practices are heavily adopted by local managers. In so doing, the imposed global system officially displayed on the one hand, and on the other hand, practical variations are inevitably emerging to satisfy the multiple logics of the locality. This idea has been reinforced by incorporating the *glocalization* concept (Cruz *et al.*, 2011), whereby variations have been identified as a necessary complement of globalization process. However, although these studies propose that local logics inform actors' consciousness, which in turn result in practical variations to adapt to the global practices, an important issue which appears to be ignored is the extent to which culture, as a significant collection of consciousness and cognitive system, shapes and re-shapes the multiple logics and practices (Scott, 2008; Lounsbury, 2008).

Institutions are recognized as socially constructed logics, in which the belief systems, values and assumptions are shaped by the cultural framework (Scott, 2013). However, while this view emphasized the role of institutions as a cultural production, many studies failed to consider how culture produces such institutional logics. Lounsbury (2008) advocated that it is imperative to envisage the 'cognitive aspect of culture', since it may represents the origins and sources of multiple institutional logics and rationalities. In other words, while the multiple logics interact with each other, ambiguity is likely to be created, by which logics are blended to create new logics and subsequent new variations in practice. In this sense, a more complete, cultural related approach would help to tease out the complementary relationship between institutions and practices, by which culture is not only indirectly shaping practices through institutional creations, it is also directly created and changed by actors.

In respond to Lounsbury (2008)'s argument, Scott (2008, 2013)'s version of cultural-related institutional theory is a promising framework which would be used in future MA institutional research. As a ramification of DiMaggio and Powell (1983)'s work, Scott (2013) classified three kinds of ingredients underlying institutional order, in which the regulative, normative and cultural-cognitive factors substantially differ in constructing institutionalization. More precisely, while the former two elements are largely overlapped with DiMaggio and Powell (1983)'s coercive and normative isomorphism, the cultural-cognitive element has been defined as "*shared conceptions which compose the nature of social reality and the frame of meaning making*" (Scott, 2013, p.67). Therefore, the cultural-cognitive framework has been emphasized as the most fundamental form of institutionalization, which formulates the foundation of institutional logic and builds the infrastructure of beliefs, as well as norms and rules. This approach indicates the consequences and extent of institutionalization differ between depended routes. More precisely, while the regulatory system could be more straightforward and compelling than the normative and cultural elements, it is also prone to superficial changes and more likely to be manipulated and decoupled. However, in most of the practical situations, these three types of elements are blended to create specific institutions to be aligned with the given situations. Therefore, in order to provide an explicit institutional analysis, it is important to ascertain which elements are the key players in a given context, and the extent to which they reinforce or hinder other elements. In this sense, a cultural understanding would be emphasized since it underpins the whole process of institutionalization.

Based on above discussion, it is reasonable to state the idea of neo-institutionalism contains great opportunities for improving theoretical framework of institutional theory. Scott (2008) states this approach facilitates a tighter conceptualization, corrects the theoretical progress from superficial to consequential change, and provides more interactive other than arguments. From a specific perspective, a number of recent China-related studies have paid increasing attention to the neo-institutional ideas, which are especially manifested in interpreting Chinese MNCs' operation and management and explaining the different origins of these Chinese approaches from western ones (Cui and Jiang, 2009; Cooke, 2014; Zhu, Zhu and Cieri, 2014; Chen, Paik, & Park, 2010). Unlike previous studies which exclusively emphasized the external institutional effects on organizational behaviours (Firth, 1996; O'Connor, Chow and Wu, 2004, Duh, Xiao and Chow, 2009), these studies focus on companies' heterogeneous responses to external institutional factors and explore companies' different forms of interactions with host countries during the process. In this sense, although the country-of-origin effects (e.g. China's policy, state ownership and culture, etc.) may still greatly shape Chinese MNCs' managerial and operational activities, these studies have revealed the interactive feature of neo-institutionalism because practical variations (e.g. different labour relations, human resource practices, modes of control and investment decisions) among companies are highlighted as the result of individuals' (managers in MNCs) active responses to the external effects. However, there are two major limitations for these recent studies. Firstly, MCS is still an absent topic in Chinese MNC-related neo-institutional studies. Secondly, all of these studies identified regulatory, normative and cultural institutions as three independent perspectives, whereby the integrative feature of neo-institutionalism was overlooked. Therefore, it is imperative for future studies to consider the interdependency of institutions and its consequence to MCS development, as well as individuals' perceptions when they interact with such processes.

In this sense, Scott's (2008, 2013) combined theoretical approach could be even more valuable for the specific Chinese context. On the one hand, because of its unique culture, traditions and social orders, it is likely to state Chinese institutions are somehow reflects long-lasting norms which remains stable in the current social life. On the other hand, it is also undeniable that China has been experienced and still undergoing dramatic changes not only on the economic but also political and societal aspects. The neo-institutional theory is likely to help with understand both facets of Chinese institutions. More importantly, by describing the interdependent relation of stability and change, a more contextualized explanation could be obtained to reveal the real picture of Chinese contexts. For example, it will help with answer questions about in which extent the changes in economic and societal environments changed people's norms and cognition? If those changes interplayed with the taken-for-granted cultural cognition, and therefore influence organizational and individual's behaviours? And whether new rationalities and institutions have been formed through the changing process?

Chapter 4: Research Methodology and Methods

4.1 Methodological perspectives in MCS research

As showed in the previous chapters, the identification of strategy and MCS as crafts, and the proposition of culture as social action, actually go beyond the discussion of empirical and theoretical limitations of previous studies, which reflects different choices of methodologies within management accounting research, as well as the different underlying assumptions of management accounting identification. More precisely, Langfield-Smith (1997, 2006) emphasized the case study approach as the promising research method which would able to reveal the in-depth managers' perceptions in MCS and organizational activities. Bhimani (1999) summarized that while the methodological emphasis was shifting from nomothetic to more ideographic stances; it indicated that positivism-driven survey studies and a functionalist-based view of accounting may not be applicable in MCS research since they exclusively focus on the technical core of the accounting system. These arguments have been greatly highlighted in recent studies (Baxter and Chua, 2003; Ahrens and Chapman, 2006; also see edited books from Humphrey and Lee, 2007; Hoque, 2006).

In this sense, it is necessary to have an overview of the methodological issues in accounting research before specifying the specific methodology for this research. Based on Chua (1986)'s classifications, the following sections will firstly comparatively discuss the mainstream school (positivism) with its interpretive and critical alternatives, and then mainly focus on the development of alternative research in the MCS domain.

4.1.1 From positivism to alternative methodologies

It is acknowledged that the traditions of accounting research were largely based on the thoughts from economics (Ryan *et al.*, 2002), which showed strongly inclinations to rationalism, realism and positivism. For example, Chua (1986) states accounting research is dominated by the belief of physical realism. Berry and Otley (2004) argued the dominant position of positivism in accounting research resulted from the continuation of empiricist traditions. Positivism was initially proposed by Comte (Laughlin, 1995) for the purpose of providing a balanced amalgamation of rationalism and empiricism. This approach allows absolute descriptions of the empirical world to be made, by which subjectivity, values and bias are ruled out from positivism and the rational, deductive process and rules are tightly defined for observation. Based on Chua (1986)'s framework, positivism in accounting research can be classified into following characteristics. It treats individuals and organizations as passive objects, which is external to reality and constrained by the environment they involved. Knowledge is obtained from quantitative methods, which needs to satisfy empirical testability. Positivism in accounting almost exclusively assumes 'utility maximization' as the goal of human and organizational behaviours, which is also the only accepted hypothetico-deductive account of scientific explanations. From the societal perspective, it states that social order is controllable and social conflicts are manageable, in which the emergence of social conflicts is identified as 'dysfunctional'. Furthermore, positivism requires researchers to have a neutral attitude toward their research and keep a value-free perspective.

Positivist mainstream accounting research attempts to develop generalizable knowledge which can be employed in various organizations, therefore, researchers are able to predict and control empirical phenomena. It believes that neutral, empirical knowledge can guide people to escape from prejudice, as well as provide judgment which will improve people's relations with their natural and social environment (Chua, 1986). However, the limitations of positivism in accounting research have been recognized and widely debated. Chua (1986) summarized two main negative consequences following from positivism assumptions. Firstly, researchers are restricted in a given and natural institutional framework of organizational forms and said to take a value neutral position. Therefore, mainstream accounting research does not have explicit purpose to assess or change an institutional structure. Secondly, the assumption of human purpose, rationality and consensus may be problematic. For an instance, the simplistic assumption of goal (utility maximization) may underestimate human action and the role of accounting (Cooper, 1983). Organizational theorists have questioned such goal-driven, rational basis of individual and organizational actions as Chua (1986) argued "*people may do not strive towards goals but retrospectively reconstruct goals to give meaning to action*." (p.612). In other words, the assumption of rationality ignored the complexity of organizations which are constantly being negotiated, produced and reproduced. In accounting research, when Berry and Otley (2004) argued the difference of phenomenon involved in physical and social research, they state that the behaviour of the phenomenon that is being studied in physical science is generally invariant in space and time; however, it is irrelevant in social science since the general laws of behaviour can be formulated and be context-specific.

The criticisms about positivism approach have resulted in significant debates in social and accounting research. One central argument is that individuals' meanings and their perceptions of reality are not independent of what might exist externally to them (Laing, 1990). Researchers argued the human beings are the most basic constituents of society, who should be the essential research object in social science. Moreover, human beings are not as same as the elements in nature, which are active and self-consciously, therefore, the study on human being is more complicated since which not only concern the nature of the phenomenon, but also the interactions between them.

Those concerns lead to the appeal of alternative approaches in accounting research. Two different types of approaches were identified as showed in Chua's (1986) classifications which are the interpretive and the critical dimensions. Interpretivism emphasizes human action as their ultimate research object. It is supposed to understand the intrinsic motivations of human beings' actions and interpret such actions and the meanings of actions. The objective of interpretivism is to understand the phenomenon rather than explain it. It is not like positivism research which requires all phenomena to be reconciled with basic principles and explain the causalities between exceptions and generalizations; in contrast, interpretivism research accepts exceptions as new phenomena and tries to understand the causes of such phenomena. Therefore, interpretivism can be described as one paradigm where the researcher believes social realities are highly subjective and the researcher interacts with what is being researched. Rather than trying to control the empirical phenomena and providing technical applications, interpretivism enriches one's understanding of social actions for the purpose to improve communication and influence. The critical approach shares similarities with the interpretivism since both approaches are subjective-oriented and rejects the assumptions underlying positivism; moreover, the two approaches both emphasize the role of social actions and generally rely on qualitative research methods. However, the critical approach holds a different view of social reality. Critical theorists believe the potentialities of humans are restricted by systems (level of consciousness or economic and political relations). They seek to construct an understanding of the social and economic world while criticizing the status quo. More precisely, the critical paradigm focuses on the social conflicts in terms of different groups' interests and ideological pressures. Criticalists state the explanation of social status is judged temporally and the power of truth only exists at particular time, therefore, the feasibility of setting common standards for evaluating theories is impossible. For these reasons, the critical paradigm usually privileges long term historical studies, by evaluating and comparing current and past societal phenomenon, thereby improving the development of knowledge.

4.1.2 Alternative research in management accounting

When looking back upon the very initial stage of the development of accounting research, precursory and tentative studies in terms of Abernethy and Brownell, 1999; Burchell, Clubb, Hopwood, *et al.*, 1980; Hopwood, 1983; Burchell, Clubb and Hopwood, 1985, focused on the social significance of the functioning of accounting and stated that actual practice of accounting is always embedded in the change process and is intertwined with its organizational, political and societal context. In the very recent collection of review papers (Chapman *et al.*, 2009), the outstanding work of Hopwood et al. has been acknowledged to profoundly influence the development of accounting research. The proposed social feature of accounting expanded the role of accounting in organizations and societies, whereby scholars are able to substantially elaborate and examine the intersections between accounting and social development. From the methodological view, this shift of research interest, in terms of investigating the sociological, institutional and philosophical interactions with accounting, contribute to a new vision for accounting research, whereby accounting scholars were no longer be restricted to positivist approach which is typically dominated by the economic and statistics thoughts (Chapman *et al.*, 2009).

In management accounting domain, alternative research has been identified as any other approach other than positivism (Baxter and Chua, 2003). Hence the interpretive and critical classifications have been combined to propose the most acknowledged positivism-qualitative methodological dichotomy (Berry and Otley, 2004; Baxter and Chua, 2003; Ahrens, 2008), Arhens (2008) provides an explicit explanation of qualitative research in management accounting. Firstly, he advocates Chua (1986)'s notions and states that qualitative research is based on the premise that human interaction determines the social reality. Secondly, he also provides more detail of how to conduct qualitative management accounting research from a theoretical and methodological perspective. In his argument, the essential task of qualitative research is to express rather than describe or clarify the field to the readers. Therefore, it requires researchers to identify qualitative research as a theoretical rather than simply empirical activity, and to connect data with theory. This proposition has also been argued by Berry and Otley (2004) that the separation of data and theory is not maintained in qualitative approach since the significance and meanings are derived from the researchers themselves. Furthermore, the authors suggest that the qualitative approach seems more open-minded due to its independence of methodology from methods, the allowance of multiple theories during research (Ansari and Euske, 1987), the loose attitude to the proposition of hypotheses and an emphasis on interactions between researchers and what is researched.

The use of qualitative approach greatly echoes with the idea of conceptualizing accounting as a social artefact, whereby extensive and interdisciplinary scholarships can be developed. The more pressing demand for qualitative management accounting studies has been amplified because of the on-going progress of globalization and the concomitant increase in multinational business (Baxter and Chua, 2003). Based on the comparative review of general research paradigms, their use in management and accounting research under global setting, as well as the significant function and meaning of qualitative approach in exploring the social nature of accounting practices, it is fair to state that the qualitative paradigm would be appropriately applied to this particular study, the relevant research questions and the theoretical framework. This will not only help with the exploration of the complexity of cultural, political and societal factors implied in the selected research site(s), but it also allows a deeper description and interpretation of the impact of context on specific MCS design and adoption.

The remaining part of this chapter will be separated into two sections. The first section (4.2) provides detailed research design for this study, which includes the selection and the use of research methods, the description of the research case, and the approaches for data collection and analysis. While ideas derived from institutional theories have been reviewed and identified as a promising entry point for explaining the complex interactions between contexts and individuals' behaviour in designing and using MCS, the next section (4.3) will explicitly present the theoretical framework that has been established for explaining research findings in this study.

4.2 Research design

Case study has been used as the research method in this exploratory study, in order to answer the proposed research questions, and guide the process of data collection and analysis. This section attempts to give a comprehensive and detailed explanation of the particular research design. Informed by Yin (2009), research design is the 'blueprint' of a research which connects the presupposed research questions to the empirical data and eventually leads to the conclusions. It is a logical plan that directs the whole research process and ensures the consistency of questions and evidence. Therefore, the following part will be divided into four sub-sections. Before entering to the discussion about the specific research case, the first sub-section aims to provide a brief overview of case study research method, which includes the use of case study in current accounting research, and the rationality of using this research method in this study. The second sub-section refers to the case description, in which the selected case will be described, and the reasons of case selection will also be explained. The third sub-section describes the process of data collection. More precisely, it start from the preparation of field research in terms of setting specific case study questions, identifying the sources of research data, deciding which methods will be used for data collection, and obtaining field access. While the methods of semi-structured interview and archival review have been applied in this research, the detailed procedure of employing each method for collecting data will then be elaborated. The last sub-section shows the strategy of data analysis, which refers to the analytic tools and techniques used in this study, as well as how the data have been managed, organized and analysed.

4.2.1 Research method selection – case study method

The case study method has been commonly used in accounting research as it has been acknowledged that it can enrich the understandings about the content and processes of accounting practice, as well as facilitate the theorization of accounting practices within their contexts (Scapens, 1990; Berry *et al.*, 2009). Along with the increasing attentions paid to the social role of accounting and the concomitant rise of qualitative approach in accounting research, case based research has greatly developed during the recent two decades (Scapens, 2004; Chenhall and Smith, 2011). Because of its ability to appreciate the complexity of social phenomena (Yin, 2009), the case study method has become popular in the domain of international management accounting and control research (Baxter and Chua, 2003; Hopper *et al.*, 2009).

As one of the most referenced guide book in case study research, Yin (2009) concludes that the case study method is distinctively applicable if researchers seek for the knowledge about the complicated social phenomena. More precisely, this method facilitates the investigation on real life events, where the overall picture of events is retained such that the meaningful characteristics within such events can be explored and explained. Based on this statement, it is fair to state that case study method will help with the investigation of the implied meanings of Chinese contexts within such MCS process.

Generally, the rationality of selecting the case study method is built on three aspects (Yin, 2009). The first condition refers to the type of research question. Yin (2009) lists a series of research questions which are simplified as ‘who’, ‘what’, ‘where’, ‘how’ and ‘why’ questions, and he state case study method mainly focuses on ‘how’ and ‘why’ questions. More precisely, ‘how’ and ‘why’ questions respectively represent the exploratory and the explanatory types of inquiry which are proposed to investigate on the reasons of the observed events. Rather than dealing with the frequency or incidence of a research object, these two types of inquiry focus on the operational links that needed to be traced over time (Yin, 2009). The second condition relates to which extent the investigator can influence behaviours and events in a study. In case study research, researchers have no control over the case, and research evidence is obtained from observation. Although interview can be conducted with the persons within the event, the individuals' behaviours are voluntary and cannot be easily changed by the researchers. The third condition discusses the issue of time and space of research event. Yin (2009) argues that case study research mainly focuses on the contemporary events, which is a major distinction from historical research despite the shared techniques within the two methods. This particular focus expands the source of evidence. More precisely, the investigation is no longer restricted to static evidence in terms of documents, archives or artefacts. The use of more dynamic techniques in term of direct observations and interviews could improve the timeliness and richness of research evidence, which in turn, reinforces the application of this method in contemporary research (i.e. the design and use of MCS in this case company's current operation).

Consequently, this study focuses on the 'how' questions whereby the two main research questions have been proposed to investigate on "how MCSs for overseas operation are designed and used in a Chinese multinational operation" and "how the Chinese context influences the process of MCS development". Based on Yin (2009)'s discussion, case study is able to provide an appropriate space whereby it allows one to explore and explain the reasons of MCS design, as well as obtain a detailed understanding about the implied contexts of phenomena. While this study is designed to investigate the MCS development and its implied interaction with contextual influence, its emphasis has been placed on the contemporary event. In other words, the impacts of 'contexts' has not been envisaged until recent years while the idea of globalization and multinational settings became a popular topic in management accounting research (Cruz *et al.*, 2011; Baxter and Chua, 2003). Informed by Scapens (2004)'s classification of the role of researcher in case study, in this study the researcher is the visitor of the selected case company, who has no previous relationship with the case company and did not participate in company's activities during the process of data collection. Although it is possible that the company would have ex post reflections towards the research, the researcher had no control over the behaviour and events.

Moreover, another two criteria of choosing case study method (Baxter *et al.*, 2008; Yin, 2009) have been included. The authors suggest that case study could be the most appropriate choice of method if a) the contextual conditions need to be covered since they are relevant to the phenomenon under study and b) the boundaries between the phenomenon and context are fuzzy. This is consistent with the proposition that the cultural influence is identified as a key component of the institutional structures that shapes the specific design of MCS. Therefore, the case study method may further reinforce the concept of 'contextualization' which is introduced in this study in order to give an explicit interpretation about the multiplicity of context and its impact on MCS. In other words, the case study method facilitates the way of providing a thick description of context, directly analysing contextual effects on the phenomenon under study, and identifying universal and particular features across contexts (Tsui, 2006).

However, the design of case study in accounting research is always controversial and the main point of argumentation can be traced back to the debate between positivism and qualitative accounting research (Berry and Otley, 2004). More precisely, while case study method can be used in either positive or interpretive way, the main distinction is about the role of theory in research design. Theory building is the crucial part of every single case studies design because it determines the types of case study, the relevance of research questions, the linkage between questions and evidences, as well as the quality of study and the way of how to evaluate its trustworthiness (Bloomberg and Volpe, 2012; Yin, 2009; Scapens, 2004; Berry and Otley, 2004). While Yin (2009) emphasizes on the real life context and the interaction between context and phenomena, his structure of case study design is still based on the positivistic quasi-experimental model, in which the quality of research design is evaluated by various types of 'validity'. In other words, the measurement of concepts (construct validity), causal relationships (internal validity) and findings generalization (external validity) are the criteria required to be met. In order to fulfil those criteria, Yin (2009) tends to prefer multiple case designs which allow a more general conclusion to be achieved using different cases.

However, although this structure may help with the design process in practice, all of the underpinned assumptions are potentially problematic for accounting research. Berry and Otley

(2004) argues in the most scenarios accounting research has been necessarily characterized by single case studies. From the qualitative stance, it is not the possibility of generalizing results, but the case per se is the key interest of the research, where the attention will be paid to the particularity and complexity of a single case and the detailed interaction within its context. These ideas further reflect the attitude towards the role of theory in qualitative accounting research. Scapens (2004) states it is impossible to eliminate the 'burden' of prior theory in a case study because the researcher is inevitably influenced by past experiences and literature reviews. However, he states the role of theory is quite flexible in qualitative case based accounting research. More precisely, although theoretical proposition may be ex ante, it is quite implicit and its main function is to provide guidance for developing original research questions and facilitating the following build of data collection framework. It is possible that other theoretical approaches may reveal insights towards the original research questions and need to be added for interpreting findings, or even new theories are developed as the case proceeds. In other words, 'openness', as the very nature of case studies method, allows the theory to be generated and improved not only from the data, but also in the course of the research. Thus, theory building is an iterative process throughout the research process, which essentially avoids a positivistic viewpoint that the theory and data are simplistically presented and conjectured in terms of cause and effect.

The different perceptions about theory is the premise of conducting case studies in accounting research, by which the benefits of case study can be appreciated through various ways of using this method. Scapens (2004) lists five types of case study in accounting research. Among the five types in terms of descriptive, illustrative, experimental, exploratory and explanatory case studies, the last two types have been emphasized as the future of qualitative accounting research. Exploratory case studies are used to explore the possible reasons of particular accounting practices especially under the circumstances that the context and phenomena are not clearly defined. This type of case study often refers to a preliminary investigation, which helps to identify the best research design for subsequent studies and the explored ideas and hypotheses are needed to be tested at a later stage. Exploratory case studies usually are conducted with a small sample, in which its objective is to discover novel ideas rather than provide generalization.

Explanatory case studies can be recognized as the further step of exploratory research which attempt to explain the reasons of the explored evidences. Scapens (2004) argues this specific type shows the real potential of case study method because it reflects the idea that using theory for convincing explanations of observed accounting practices, in which the theories are able to be modified, and even complemented by new ones in order to gain satisfactory explanations. Furthermore, Scapens (2004) suggests it seems unnecessary to clearly distinguish those two types of case studies because exploration and explanation are likely to be co-existed and interdependent.

Based on this argument, this specific study can be located to be in accordance with the exploratory and explanatory lenses. On the one hand, the introduction of neo-institutional theory greatly facilitates this study to explore the under-discovered and obscure nature of local context, as well as its interaction with MCS development under the multinational setting. On the other hand, informed by the idea of contextualization which emphasizes the activity of contexts, this study also expects to give indigenous explanations for the reasons of what have been explored.

4.2.2 Case description

This sub-section aims to give an overall description about the case which has been selected for data collection and to answer the proposed research questions. However, defining what is the 'case' is only one part of the case description. Case selection is not an arbitrary or opportunistic process since it is supposed to solve two important issues. More precisely, why the selected case is able to generate suitable data to connect with research questions? And why the case selection reflects the needs of theory development?

The purpose of this study is to investigate the MCS development in Chinese multinational enterprise setting, in which the contextual differences have been identified as a main player that interact with the design and use of MCS. Because the selected case needs to be accorded with those presupposed settings in the first place, "International GS" has been selected as the case company in this study. International GS is one of the largest construction companies in western Mainland China. Because of its international strategy, it has rapidly developed as a multinational company in last 10 years. The company has established two group subsidiaries in Ghana and Zimbabwe respectively, which are responsible for construction projects in more than 16 countries in Africa. For this research, case studies has been conducted in two research fields which are the head office of International GS, namely GSLZ and its subsidiary in Ghana, namely GSJN.

This particular design is mainly encouraged by two reasons. In the first place, this study emphasizes the activity of Chinese company under multinational progress, in which the dynamic role of Chinese context has been particularly highlighted as a key player. Therefore, on the one hand data collected from GSLZ is assumed to provide an overall picture in terms of the company's international vision and strategy, the designing process of MCS for overseas operation, and the interplay of Chinese particularities within the process. On the other hand, the site of GSJN would provide a lens to re-examine the impact of assumed Chinese dynamism by investigating on how the designed MCS is actually enacted in one of the multinational contexts. More precisely, it would help to address the questions in terms of whether the Chinese version of MCS is completely adopted in the Ghanaian context or changed to be consistent with local contexts. The combination of the two units of analysis is able to reflect the essential idea of neo-institutional theory in which individuals' power and interests are not only influenced by contextual differences, but also interact with them. The second reason refers to the connection between GSLZ and GSJN. Although GSJN is an independently registered company in Ghana which has great managerial and operational autonomy in local level, from organizational level it is still an overseas subsidiary of International GS. Thus, GSLZ, as the head office and control centre, supports and monitors the operation of GSJN by setting profit objective, arranging key personnel, and dispatching construction supplies. From a holistic view, the two units of analysis can be recognized as the sequential stages of the overall case study since the foundation of MCS in GSJN is derived from and determined by GSLZ. Yin (2009) states the most crucial pitfall within embedded case study design is "*sometime too much attention is paid to the particular subunits and fails to return to the holistic analysis*" (p.52). However, it unlikely happens in this study since GSLZ and GSJN are interdependently connected, which forms the holistic and complex picture of International GS. In other words, each of the two units of analysis is the necessary rather than complementary component of the overall case study design.

Furthermore, international GS, as one of the domestic multinational company, represents a new direction of conducting Chinese international management and accounting research. More precisely, for a long time the Chinese cultural management and accounting research has been predominated by western notions (for example, Hofstede’s cultural terminology). The main reason is researchers somehow position themselves as the outsiders of Chinese context, in which China has been identified as the passive receiver of western notions. However, many researchers have advocated a ‘shift in the role’ by starting research from the domestic viewpoints (Scapens and Yan, 1993; Firth, 1996; Tsui, 2006), in which a possible way is to explore how Chinese companies are operating their business abroad (Dong and Liu, 2010). Informed by this idea, this case selection can be recognized as an attempt to provide a more holistic picture of accounting practices by relying on locally-created insights.

International GS would be a typical ‘extreme case’ that allows for particular theoretical insights to be revealed (Scapens, 2004). More precisely, the ‘extreme’ can be explained by two features embraced in the case company. In the first place, Scapens (2004) states one of the method to define an extreme case is to select a case company that is in a complete different industrial setting. While previous studies have paid great attention to manufacturing and service industries (for example, see review of Chenhall and Smith, 2011), construction industry has been rarely studied in MCS research. Nevertheless, it is quite possible that specific management and control practices would be identified within the construction projects and sites. Therefore, the under-explored industrial setting within case selection would not only facilitate the development of neo-institutional theory, but it may also provide possible insights for re-examine other theories that applied in MCS research. Secondly, both of the units of analysis involved in this study have been selected from a non-Western context. Although case based international management accounting research has increasingly paid attention to the Chinese context, most of the case selections have been limited to the joint ventures of American-Anglo based multinational companies (Yan and Gray, 1994; Chalos and O’Connor, 2004; Avison and Malaurent, 2007). The narrowed case selection may restrict the potential insights to be discovered, especially in the contemporary business environment in which the increasing Chinese companies have greatly expanded their multinational settings around the world. The selection of International GS is assumed to provide possible indigenous insights, in which broadened understandings about MCS practices within Chinese context are expected to be displayed. This particular case selection embraces great space for theory development, which not only refers to specific neo-institutional theory, but also indicates the possibility of developing indigenous theoretical innovations of management accounting (Scapens, 1993, Firth 1996).

A more unique issue refers to why was the Ghanaian subsidiary included in the case selection. From a practical perspective, it is fair to state an African related case may reflect the MCS development of Chinese multinational companies in the best place. More precisely, Chinese multinational or transnational enterprise is still in the very early stage of development. Some African countries, because of its relevant less developed management and techniques, have become the most popular regions for Chinese companies to start their international business. This tendency is greatly manifested in construction industries (Corkin, 2012; Kernen and Lam, 2014). Furthermore, because of political imperatives, the Chinese government has launched numbers of aid-projects in African countries during the last 60 years, which provides great opportunities for Chinese construction companies to enter the African market and gradually formed their own transnational operation. In other words, because of the inherently historic advantages, International GS as one of the earliest independent multinational in Africa is more likely to possess a sophisticated organizational structure and MCS practices.

Additionally, this case selection is also attached with one of the unique nature of Chinese companies, namely the state-owned identity. Similar to many other construction companies in China, the precursor of International GS is an overseas department of a state-owned enterprise (namely Construction GS) which is controlled by the provincial government. This is a common status in China since the previous centrally planned economic system prohibited construction projects to be taken over by private parties. Although International GS has gradually transferred to a stock holding group in order to echo the economic reform and opening-up policy in last 10 years, the SOE heritage is still inherently implied in its organizational structure and management control practices. Thus the SOE feature in the case selection was a purposeful rather than an exceptional decision. More precisely, on the one hand SOE influence is not an idiosyncratic, but an inevitable issue within the construction industry in China. As the pioneer and the earliest beneficiary of economic reform progress, it is the fact that construction companies' overseas operation has been largely underpinned by national support. For example, 16% of China's OFDI in Africa had been distributed to the construction industry in 2013, which made this industry to third biggest receiver of OFDI after mining and finance industries (Zhou and Leung, 2015). On the other hand, the form of SOE per se is the reflection of the political context at the corporate level. This study argues cultural characteristics that greatly contribute to the complexity of Chinese social context. However, informed by the notion of societal effects (Bhimani, 1999), culture has been identified as a changing form that interacts with other factors within the context. In other words, the political characteristic is also an active indicator which reshapes the contemporary form of Chinese culture. Moreover, since the idea of multiplicity of national context has been emphasized in the way of conducting deep contextualization (Tsui, 2006), it is fair to state the complex picture of the unique Chinese context would not be completed if the complementary role of political context is ignored.

4.2.3 Data collection

4.2.3.1 Preparation

Whilst the research case has been selected, the next step would be to prepare for the data collection in research fields. It has been acknowledged case study is an open-ended research method in which there is no specific routine procedure to be followed (Yin, 2009). Therefore, it is even more important for researchers to create their own procedures prior to entry the research fields. A clear preparation plan will guide the whole process of data collection and make sure the collected data are in accordance with research propositions, by which it facilitates the following data analysis and reporting.

The first part of preparation refers to specifying what questions will be asked in the research fields. There are two questions have been proposed in order to explore the MCS design in Chinese multinational enterprise, as well as the Chinese contextual impacts on the process of design. However, informed by Yin (2009)'s argumentation of 'level of questions' (p. 87), those two general questions are required to be specified into series of sub-questions in order to meet different levels of inquiries. More precisely, three levels of inquiries have been identified for this case study. The first level includes questions to be asked of specific interviewees. More precisely, MCS is constituted by various types of control practices which are existed within almost every functional department of a company. On the one hand, it has been generally regarded as a top-down process which used to facilitate the implementation of company's strategy (Anthony, 1965; Simons, 1994). On the other hand, the creativity and innovations of middle-range managers have been increasingly identified as an important factor of MCS-strategy interplay (Simons, 1995; Marginson, 2002). Therefore, different questions have been designed to be varying with the positions and status of the individuals to be interviewed. For example, while questions made for company's top managers (Chairman, general manager, CFO, et al.) mainly start from the macro view, such as company's version, strategy, the purpose of MCS design and how the system is enacted, questions in terms of types and contents of control practices, the outcome of implementation and individual's perceptions will be asked of middle-range managers (department directors, deputy mangers, et al.).

Based on the preliminary background review of International GS, as well as the embedded case study design, the second level of questions regards the questions asked of the individual units of analysis. On the one hand, as the head office of International GS, GSLZ is in responsible for directing and monitoring the operation among 16 countries in Africa; therefore, questions have been asked from a broader organizational perspective, in which how the designed MCS practices link with the organizational outcomes and strategy as the main focus. On the other hand, in order to explore the cultural influence on MCS design and adoption, questions for GSJN are more contextual sensitive, in which attention will be paid to the consequences of MCS implementation in practice, local's response to those practices and the implied cultural impact, and the possible reform of MCS in local.

The third level of questions is derived from Yin (2009)'s guidance of normative questions. These questions are proposed to obtain information beyond the evidence of research field. The information could be obtained through the review of documents and secondary data which are made by the case company, or even other literature, policy recommendations and conclusions which are relevant to the case or its surrounding environment. Those kinds of information will greatly enrich the understandings of the context of the case company, in which a deeper contextualization of the evidence is more likely to be achieved.

To answer those field questions, the next step of preparation is to seek for the appropriate data collection sources. Based on the proposed questions, it is quite likely to state individuals involved in the case company are the most significant source of data collection. Because MCS is the issue that mostly involved in management level, in this study the main targeted individuals refer to top and middle managers of both GSLZ and GSJN. However, since cultural influence is the significant presupposition of this study, candidates have been slightly expanded to include certain number of supervisory-level managers and functional staff. This screening strategy is especially useful in the field of GSJN in which the local managers usually have been arranged to lower management level in terms of marketing adviser, HR assistant or construction worker leader. Therefore, they would provide valuable insights about local particularities and their own perceptions and attitudes toward the Chinese style of management.

However, as Yin (2009) states that even though the data collection is heavily relied on information from individual interviewees, the conclusion is unlikely to be exclusively obtained from it. More precisely, it is the premise that the unit of analysis is organization. Although individuals' perceptions would unveil the organizational outcomes and performance in certain extent, from a macro view other sources of data would also help to give a full picture of the organization per se, as well as a sound explanation of its implied context. In order to answer the proposed third level of questions, archives and documents about the overview of construction industry, company's background and its development course in abroad would be another source of data collection.

The selection of data sources, in the meantime, determines the methods will be used for collecting data. Briefly, data collection of this study is mainly relied on interview, which would be complemented by document and archival review. The use of multiple data sources and method is not only for satisfying the need of research questions, in the meantime it is also the necessity of research design of almost every single contemporary case study research (Yin, 2009). More precisely, while it is unlikely to assert one single source is completely superior to the others; various sources of data can be used in a complement way in order to improve the robustness and reliability of collected evidence.

The last necessary part of preparation is to obtain the access to the research fields. The first contact with case company occurred on May, 2012, which was conducted through phone calls and emails with two officials of the administrative department in GSLZ. The preliminary contact ensured the introductory information about the research and the intention of conducting case study has been delivered. Based on officials' advice, a formal letter of introduction was sent to the general manager of GSLZ on August, 2012. This letter included the identity of researcher, the research purpose, the procedure and methods of collecting field data, the confidentiality measures to the company, interviewees and other relevant information, as well as a provisional time schedule. The permission had been received in one week, by which one month field research in GSLZ was conducted on September, 2012 in China. Along with the field research in GSLZ, managers gradually increased their understanding about the research, in the meantime, they also have being familiar with the researcher as a person. The trust built between managers of GSLZ and the researcher has greatly facilitated to gain access to the GSJN case. More precisely, because of the personnel rotation between head office and overseas subsidiaries, the researcher was able to be known by some of the managers who worked or prepare to work in Ghana, therefore, the intention of visiting GSJN has been informed and promised even during the visit of GSLZ. The formal permission of visit had been obtained shortly after the completion of GSLZ unit on March, 2013, by which a two-week field visit was conducted in June, 2013. (ERGO approval code is 2302 for the case of GSLZ, and 6349 for the case of GSJN, respectively).

Moreover, based on the researcher's own experience during the course of obtaining access, it is likely to suggest besides the formal and regular application process, building and maintaining a good relationship with people involved in the case company would relieve the sense of 'distance' and enhance the 'willingness' of those people to help with the research to be conducted. The proposed 'good relationship' does not represent the compliance to company's regulation, proper etiquette or respect, since which are the common rules that should comply with as a visitor. This kind of relationship is more personal, as the *Guanxi* in Chinese context, which needs to be established through informal and affective activities in terms of off-work chatting, having dinner together, or other ways that can enhance the identification towards researcher. It is similar with the Chinese business circumstance which Yang (2002) described that the affective tie built in off-work social activities plays a quite important role in the business cooperation in China. However, it is by no means to suggest researchers are necessarily to seek for the 'relationship' within the Chinese related cases. Nevertheless, this particular issue reflects the nature of Chinese social context. More precisely, the awareness of *Guanxi* building is the social ethic which inherently accepted by people no matter in which circumstances. Therefore, for the specific case study design, the process of field visit would be more smoothly achieved if researchers understand and respect the particular social manner of Chinese people.

4.2.3.2 Collecting data

Based on the identification of possible data sources, interview, document and archive review have been selected as the methods for data collection. The following part aims to give a detailed explanation of how these two methods have been designed and utilized in the research fields.

Interview

Interview has been prevalently recognized as the cornerstone of case based research (Scapens, 2004; Marginson, 2004; Yin, 2009). Yin (2009) states interview provides the most essential evidence of case study from at least two perspectives. Firstly, the involved interviewees are able to give significant insights into the human affairs or behavioural events within a case; secondly, they may also provide valuable information and knowledge about the background, history and context of the case, which could be used to identify other relevant source of data. Due to the significance of interview, the nature and quality of interviewing process greatly determines the robustness of the whole case study project. Marginson (2004) argues a thoughtful interview design should concern three main questions which are ‘what to collect’, ‘how much to collect’, and ‘how to ensure the accuracy of what is collected’.

The question of ‘what to collect’ is greatly associated with research propositions and case field questions, but its more implied inquiry is what type of interview would be selected to generate appropriate evidences for addressing the questions. Interview method has been generally classified into three different forms which are structured, semi-structured and unstructured interviews (Scapens, 2004). While structured interview refers to a nearly fixed series of questions are proposed to be asked of different interviewees, unstructured interview do not have pre-set questions in which interviewees are freely to provide their own perceptions of an event. Semi-structured interview is seems like a mediator of the two ‘extremes’. Under semi-structured form of interview, a broad question framework is coexisted with the flexible space for questioning. From the view of this specific research, on the one hand the research proposition of exploring MCS design in case company is likely to be addressed through certain formulated questions. Because interviewees come from different functional department and execute different practices, a framework for questioning would lead interviewees to focus on the facts of the event – the ‘management control’, by which their answer would be accordance with researcher’s line of inquiry (Yin, 2009). On the other hand, more flexible space is required for answering questions about cultural and other contextual influence on MCS. Because interviewees themselves are deeply involved in the context, their own insights and opinions could reflect the in-depth meaning of the context. By following the interviewee’s ‘free thoughts’, responses could be questioned in greater depth, by which certain particular evidences are able to be manifested (Scapens, 2004; Horton *et al.*, 2004). Therefore, the selection of semi-structured interview in this study is likely to meet the both requirements of questioning (Interview checklist showed in Appendix A provides the question framework).

The question of 'how much to collect' is a subtle and problematic issue within case studies because there is no standardized model so the number of interviewee in each case can be differs from others (Yin, 2009; Marginson, 2004; Scapens, 1990; Scapens, 2004). Based on his own experience, Marginson (2004) suggests it is better not to prescribe a specific number and then expect to arrange that many interviewees before entering the field, because the intention of case based research is to cover as many company's departments and management levels as possible, by which a more complete picture of company's overall management control is able to be revealed. Therefore, it is necessary to grasp any emergent opportunities and allow the possibility of conducting extra interviews throughout the course of field research. To be in accordance with this idea, Yin (2009) states if the researcher expects an in-depth interview in which interviewees' opinions about events are equally important with the fact of events, it is better to identify interviewees as 'informants' rather than 'respondents'. Key informants sometimes critically contribute to the success of a case study. On the one hand, they would provide insights into the events, which may help investigator to seek for more corroboratory or contrary sources of evidence. On the other hand, they may appropriately introduce the researcher and initiate access to their colleagues and subordinates for interview, in which the 'extra opportunities' can emerged.

The idea of 'key informants' has greatly facilitated the process of data collection in International GS, especially for the GSJN field research. Because of the geographic distance and time restriction, it is hard for the researcher to accurately confirm the interview schedule in advance, especially when the information about local managers is quite insufficient. Under this circumstance, the interview in GSJN has been started from a small number of managers who had previous contacted with the researcher in GSLZ field. These managers then became to the 'key informant' by providing detailed information of company structure and personnel distribution, and they also helped with the arrangement of other interviews by recommending interviewees, negotiating appropriate time, providing vehicles and other facilities. 55 interviews have been conducted in total, of which 24 were conducted in GSLZ (China), and the remaining 31 interviews in GSJN (Ghana). Those interviews have been conducted with company's supervisors, department directors, and middle level managers within departments. Because of the diversified operation in Ghana, interviews have also been conducted with general managers of GSJN's local subsidiaries, as well as Ghanaian managers. Moreover, the 8 of the 55 interviews has been conducted with same interviewees after the first round of data collection, which is proposed to clarify some remaining questions within the first round interviews, as well as seek for the answers of some emerging questions during the analysis. Those re-interviews have been conducted via phone call, emails and internet call and message (Skype). Overall, field data have been collected from 55 interviews from 47 different interviewees. Appendix B provides a detailed Interviewee profile for this case study. While most of the interviews were between one to two and half hours, some others (mainly second-round re-interviews) only lasted about 30 minutes as the main objective was to clarify or reconfirm certain information obtained in the previous formal interviews.

In Marginson (2004)'s argument, the question of how to ensure the accuracy of what is collected mainly refers to the validity and reliability of data, which is related to the method used for recording evidence. Recording is the key step of interview since a well-ordered and coherent record would help researcher to retrieve the data, and facilitate the subsequent analysis and reflection process. It is also necessary that all collected evidence should be recorded promptly as the interview proceeds since memories can fade quite quickly (Scapens, 2004).

Researchers usually face a practical choice between taping or manual recording of interviews. Generally speaking, taping is the most commonly used and preferred technique for recording data. Because the recorded audio information can be used to restore the interview conversation in later time, it certainly provides a more accurate rendition of interviews (Yin, 2009). However, in practice whether to use recording device is largely depended on the scenario of interview, and it should be replaced by other methods under certain circumstances (Yin, 2009). For the specific case of International GS, the use of recording device has been greatly restricted since a number of interviewees were reluctant to be taped. The difficulty of tape recording can be described in two aspects. Firstly, some interviewees appears uncomfortable or nervous during the interviewing despite the use of recording device has been informed in advance, and the device has been placed unnoticeably. Quoting one interviewee's own word, "*I'd like to talk about some real stories, but the taping makes me feel like I'm doing testimony.*" (LZ13). A possible explanation is the interviewees were not familiar with the form of taping as a research method, which emphasized the formality and seriousness. Therefore, interviewees were easily distracted and took care of the language they used for conversation. On the other hand, other interviewees, especially in terms of the supervisors and managers in top level, have directly rejected taping at the beginning of the interviews. Their reasons of refusal can be interpreted as one core concern – ‘confidentiality’. Interviewees indicate the conversation may relate to national assets because of the company’s SOE identity, or the opinions they provided are associated with business secrets. Therefore, although the relevant ethical and confidential protection measures have been clarified beforehand, they still felt insecure about the ways the evidence will be used. Based on these concerns, 40 of the total interviews in International GS have been recorded by manual note-taking.

However, choosing a recording method is a matter of personal preference since each method has its own pros and cons, and it is unlikely to argue that one method of recording is completely superior to the other (Scapens, 2004; Hayes and Mattimoe, 2004; Yin, 2009). Therefore, the use of manual recording is unlikely to be understood as a compromise, contrarily, advantages of this recording method has greatly amplified in this particular case study. More precisely, rather than tape recording in which researchers mainly focus on questioning, the manual note-taking is actually a concomitant series of actions includes listening, thinking, evaluating, writing note and preparing follow-up questions (Hayes and Mattimoe, 2004). Therefore, researchers need to be more actively and consciously involved in the interview, by which the sensitivity toward salient points could be enhanced because there is no second chance for checking conversation after interview. Moreover, because it is impossible to record every single word manually, while an annotation of important evidence is identified and written down, in the meantime the redundant information has been filtered in order to facilitate the following data analysis. In practice, while researcher’s initiative and attentiveness are greatly required in the note-taking process, it somehow also impacts on interviewees’ behaviour. More precisely, the researcher found several interviewees were quite pleased to see their talk to be noted because those visible records could be recognized as the respect to their participation, and the symbol that represents their insights have been valued to contribute in certain form. Therefore, the interviewee’s own initiative is raised to build a favourable interview 'climate' and a more open-minded attitude towards questions.

The written notes also can be used to re-examine the accuracy of collected evidence, which is extremely helpful for this particular case study. More precisely, because it is inevitable to encounter several jargons and unique practices used in construction industry, a physical note is able to be checked, confirmed and explained immediately by the interviewee per se, which is also can be used to gain an instant and re-assured version of interviewees' feedback. Furthermore, in order to supplement and improve the accuracy of collected evidence, it is quite important for the researcher to have an instant self-reflection after each interview. The 'self-reflection' includes review of note, expand the shorthand, complete the unfinished note, and write a memo to capture the most of the useful details about the interview. Sometimes self-tape recording were used in order to capture the emerging ideas.

Document review

In case study research, document data refer to the pre-existing and tangible information which would be associated with the case. This type of data resource can take various forms which range from formal administrative report, minutes of meetings, announcements, media articles, organizational records, to informal or personal records, notes and memos (Yin, 2009; Scapens, 2004). However, those documents were written for specific purposes and audience other than the case and researchers of the case. Therefore, before the review takes place it is crucial to critically identify the most essential and relevant information, by which researchers will not be misled by the possible bias within the information, or overwhelmed by the data overload. In order to do so, researchers need to understand that the most important reason for using archive and document data is to corroborate and augment evidence from other sources (Yin, 2009).

Based on the above concerns, three types of documents have been identified and reviewed for this specific case study. The first type refers to information from company's official website and publicity brochures. These documents provide an introduction about company's organizational and management structure, personnel distribution and current business operations. However, since they are made for business communication purposes, which may be selective and biased. Therefore, this type of information is unlikely to form the robust evidence. Nevertheless, by reviewing these documents, the researcher is able to have an overall understanding about the case.

The second document is the chronicle of International GS, which is an internal archive that records the historical progress of company from 1978 to 2008. More precisely, this archive provide explicit information about company's development course and construction projects in overseas markets, its organizational structure change, significant governmental policies enactment, historical personnel transfer, and summarized records of operational and managerial meetings. Those kinds of information not only provide opportunities for the researcher to obtain a deeper understanding about the context and phenomenon surrounding the company, but simultaneously they also facilitate the researcher to trace the historical changes of company's structure, management control and strategy. Therefore, this document review is likely to be used to explore the contextual influences on MCS development, in which more specific questions are emerged to be corroborated through interviews. Moreover, since this chronicle is recorded from 1978 which is consistent with the China's economic reform, it provides a particular lens to investigate the impact of China's political and societal changes on the company's development.

The third type of document comprises of the management manuals for both GSLZ and GSJN. These are the most valuable documents to be reviewed for data collection because these manuals list explicit managerial rules and regulations for every single functional department within the companies. While the manual represents the formal and official texts which requested to be strictly complied with in management practices, they can be identified as the main part of formal control practices within the case company. Therefore, by reviewing these documents, the researcher was able to question why and how these specific MCS practices are designed, explore managers' reflections and attitude towards the circumscribed practices, and investigate the causes of different use of MCS between GSLZ and GSJN.

4.2.4 Methods for data analysis

Thematic analysis has been identified as the main approach for analysing data. As the most common form of analysis which could be associated with almost each kind of qualitative data (Boyatzis, 1998), thematic analysis represents a process of pattern recognition within the qualitative information, in which themes can be identified to present the important meanings of the researched phenomenon and associate to the specific research questions (Fereday and Muir-Cochrane, 2006). In other words, those themes become the categories for analysis.

From the methodological perspective, thematic analysis is performed as a guideline to classify qualitative data through a transparent, coherent and consistent coding process. It normally involves six phases which are familiarization with data, generating initial codes, searching for themes among codes, reviewing themes, defining and naming themes and producing the final report (Braun and Clarke, 2006). While the final report will be presented in next chapters, this sub-section mainly focused on the first five phases.

Becoming familiar with the data is depended on repeatedly data reading, therefore transcription of interview data plays as the premise in this phase. Because interviews have been recorded either by taping or manual note-taking, transcribing processes were conducted in different forms. On the one hand, because both Chinese and Ghanaian managers were involved in interviews, all taped interviews were firstly transcribed into the same language that used in interviews (Chinese and English). Those Chinese transcriptions were then translated into English versions for a coherent analysis. On the other hand, while the written notes could be identified as preliminary transcriptions of interviews, these notes have been further expanded through the combinations of interview notes, researcher’s memos and instant self-taping after interviews. Furthermore, most of the expanded interview notes (33 of 40) have been sent back to the relevant interviewees for re-examination and feedbacks, whereby more developed transcriptions were obtained based on interviewees’ complementary, comments and corrections. Similar to the transcriptions for taped interviews, notes were initially taken in the language that used by interviewees, and were then translated into English when the final improvement has been made after the feedbacks.

Initial codes were identified after repeatedly reading and reviewing of the transcribed data. Although main research questions and relevant theoretical framework has been developed in advance, the first round of coding has been directed by the open-coding strategy (O'Dwyer, 2004), whereby any part of data information that may have special meaning would be identified as a code without constrained by the specific research questions or theories. For example, while some codes apparently showed their linkage with research questions in terms of '*project budget'*, *'subjective evaluation'* or *'diversified operation'*, some others represented interviewees' general perceptions of management and contexts, such as *'communication gap'*, *'conformity'* and *'symbolic procedure'*. More than 150 initial codes were generated through cyclical coding process.

Those initial codes were further analysed to be associated with some overreaching themes which represented the general concepts of research questions and the different levels of theoretical framework. More precisely, initial codes were firstly classified into *'GSLZ'* and *'GSJN'* themes for analysing the potential differences between *'MCS design'* and *'MCS use'*. Within each of the two categories, codes were then divided into six themes in terms of *'culture'*, *'society'*, *'politics'*, *'economy'*, *'management control'* and *'managers' perceptions'*. Those potential sub-themes generally included key concepts within the theoretical framework.

Composing initial codes to primary themes is not as simple as an allocating process, rather it involved both 'data reduction' and 'data complication' (O'Dwyer, 2004). Based on the review of proposed themes, codes within those themes which shared similar meanings or related to similar phenomena have been further combined and refined into sub-themes. For example, *'budget'*, *'cost control'* and *'performance measurement'* have been manifested as three sub-themes under the *'management control'* theme. Initial codes in terms of *'sense of belonging'*, *'familial pressures'* and *'in-group perception'* implied similar meanings which have been classified into the sub-theme of *'Guanxi'* under the *'culture'* theme. Moreover, based on the analysis of initial codes, especially those are subjected to the 'managers' perceptions' theme; several latent ideas have been emphasized by managers though they were not directly associated with the proposed themes. In this sense, some new themes and sub-themes have been identified as the complementary contexts for the way data is viewed and analysed. For example, *'localized management perception'* has been added as a sub-theme of *'management control'*. Sub-themes such as *'diversified operation'*, *'inter-governmental cooperation'* and *'human resource shortage'* constituted the new theme of *'strategic concerns'*.

Those categorized themes and sub-themes were then compared between the *'GSLZ'* and *'GSJN'* categorises, by which the similarities and changes within themes were showed to analyse how the MCSs were designed and used in the multinational setting. Moreover, while this study mainly focuses on the interactions between MCS and contextual factors, it is unlikely that the interactions can be explored and explained through independent analysis of different themes. In this sense, the final analysis would be based on a thematic network which summarizes the main themes and show connections among these themes (Attride-Stirling, 2001). Appendix C shows the thematic network for this study.

4.3 Theoretical framework

Ideas of neo-institutionalism has been identified as the theoretical foundation of this study, since which is expected to provide a pertinent explanatory framework to envisage the complexity and multiplicity of MCS development in the Chinese multinational context. More specifically, based on comprehensive overview of theoretical development and exhaustive literature reviews in past four decades, Scott (2013) proposed an synthetic conception of institutions as stated that "*institutions comprise regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life*" (p.56). Although overarching, this definition indeed contained key ideas of neo-institutionalism which unpacked the multifaceted, durable and symbolic properties of institutions. In other words, this definition elaborated the mutual associations between institutions and social activities, behaviours and material resources. Additionally, this definition also emphasized the great possibilities of produce, reproduce and change derived by the interactions between institutions and human behaviours.

This integrated conception has been further illustrated through the proposition of 'three pillars of institutions', by which regulative, normative and cultural-cognitive systems were identified as the vital ingredient of institutions that mutually and interdependently contribute or reinforce to a powerful social framework (Scott, 2013). However, while this integrated approach facilitates a more inclusive understanding of the meaning system to certain particular research objects (organizations, fields or societies); it also revealed significant differentiations between the institutional elements. Table 1 shows the overall structure of Scott (2013)'s theoretical framework of institutional pillars. It shows that each of the three principal dimensions were underpinned by different mechanisms, logics and indicators, by which they were able to interacted with various facets of societal activities and human behaviours. Therefore, the more analytical function of this approach is likely to be embodied by "*distinguishing among the several component elements and identifying their different underlying assumptions*" (Scott, 2013, p.59).

Inspired by this genre of ideas, the research findings would be analysed and discussed under the analytical approach of three institutional pillars. Figure 3 shows the skeletal framework how the various types of MCSs design and use, as the concrete forms of organizational activities and behaviours, would be framed and associated with their underlying institutional orders. More importantly, because of the interdependent nature of institutional orders, rather than three mutually exclusive streams of analysis, more attention would be paid to the interpenetration of institutional orders and its consequences to MCS development actions in the given context of case company. In this sense, the cognitive-cultural pillar would be especially discussed since it reflects "*a collection of internalized symbolic representations of the world, which mediates between the external world of stimuli and the response of the individual organism*" (Scott, 2013, p.67).

It is likely to state that this framework would facilitate to disentangle the complicated situation of the case company's MCS design and use from at least three aspects. Firstly, while this study proposes that the development of MCS are largely resulted from co-existed but conflicted institutional notions within macro perspectives or between macro and micro ends, influencing factors from both sides are able to be explained simultaneously under the framework. Scott (2008, 2013)'s classification of regulative, normative and cultural-cognitive institutional orders helps to identify whether the company's MCS design and use is legally sanctioned, morally authorized or culturally supported (Scott, 2013). Moreover, rather than a static classification which provided mutually exclusive boundaries for various institutional orders, Scott (2008) indeed emphasized great possibilities that those institutional elements from different origins are transferable, as he argued that "*a transmutation over time of regulative into normative and cultural-cognitive elements*" (p.431). In this sense, this idea may greatly facilitate in this case findings by combining China's economic reform and policy changes with the analysis of the company's MCS rule setting and usage.

Table 1 Three pillars of institutions

	Regulative	*Normative*	*Cultural-cognitive*
Basis of compliance	Expedience	Social obligation	Taken-for-grantedness Shared understanding
Basis of order	Regulative rules	Binding expectations	Constitutive schema
mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules Laws Sanctions	Certification Accreditation	Common beliefs Shared logics of action Isomorphism
Affect	Fear Guilt/Innocence	Shame/Honour	Certainty/Confusion
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognizable Culturally supported

Adapted from Scott (2013, p.60)

While this study emphasizes managers' activities in the use and adaptation of MCSs in different locations, the second analytical direction of this framework would emphasizes on interactive institutional dynamics. In other words, while the behaviours of organization actors are identified as the bottom-up force to preserve and modify rules, norms and meanings (Giddens, 1987; Scott, 2008), it provides great opportunities to explain how managers' power and interests played in the company's managerial practice and its relationship with rules. Moreover, the interactive feature of neo-institutionalism argued although actors could actively response to macro institutional pressures, their behaviours and choices are also rationally echoed with multiple logics involved in the specific organizational field (Meyer and Rowan, 1977; Lounsbury, 2008; Thornton *et al.*, 2005). The idea of multiple logics and the concomitant multiple forms of institutionally-based rationalities would provide new insights into practical variations, which may contribute to the extant idea of ‘rules and routines decoupling’ in management accounting studies (Burns and Scapens, 2000).

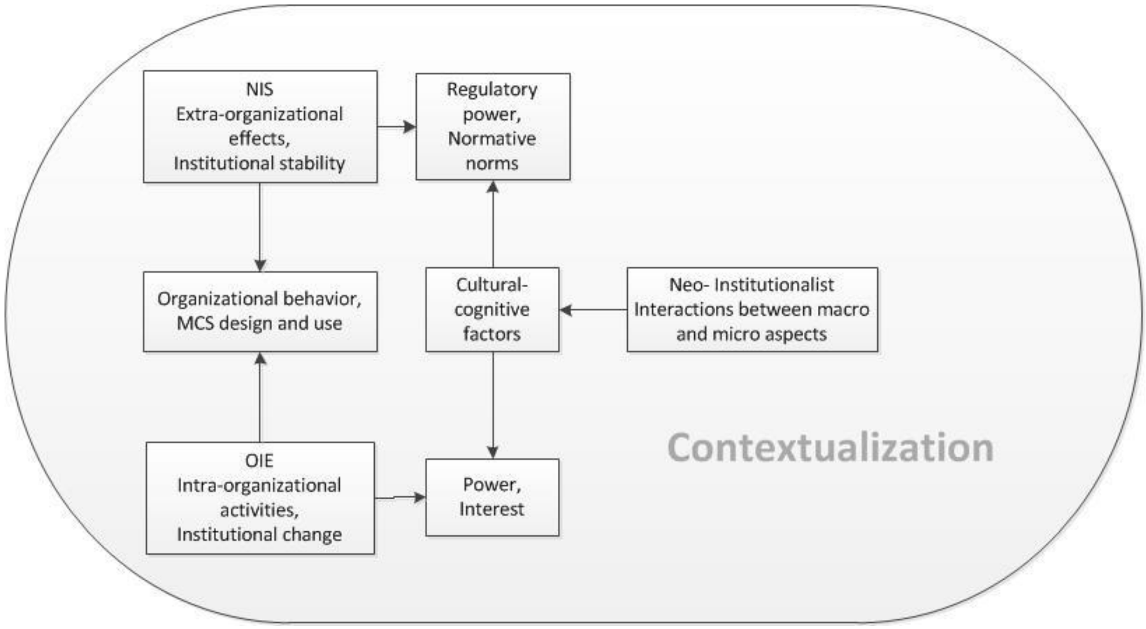


Figure 3 Skeletal theoretical framework

Last but not least, while such logics were further referred to ‘broader cultural beliefs and rules that structure cognition and guide decision making’, it is very likely that insightful explanations would generated if the cognitive-cultural aspect of the framework is identified as the fundamental institutional logics (Mohr, 1998; Lounsbury, 2008). As quoted Scott (2008)’s argument -- cultural framework “*formulated the classificatory systems, assumptions, and premises that underlie institutional logics, and in turn provide the infrastructure on which not only beliefs, but norms and rules rest*” (p.429). Again, due to the interactive nature of neo-institutionalism indicated that the ‘coexistence of institutional stability and change’ is in a primary position; cultural explanation would not be used in somehow static or definitive ways. In other words, Scott (2008) stated while all organizations operated in both technical and institutional environment, the only variation is the extent that different pressures posed on individual organizations. Inspired by this idea, the ultimate explanation for this particular case findings would be articulated by investigating on what elements were at play in this given context, and to which extent they worked to reinforce or undercut other ones.

The section above explicitly illustrates the selection of theoretical framework for analysing the findings of the case study. Besides the fundamental framework derived from Scott's (2013) work, this case study is also supported by the concept of 'contextualization'. More precisely, this approach allows the research case to be contextualized into its relevant cultural-political-societal-economic environment, whereby many case-sensitive factors are able to be identified and incorporated into the theoretical framework. In other words, contextualization work underpins the establishment of the theoretical framework for this specific study, since it refines the framework to be more relevant and pertinent to the research case. The next chapter shows the details of how the research case is contextualized, as well as which contextual factors are identified to be related to the case study.

Chapter 5: Contextualizing the Case Study

Based on the critical evaluation of previous studies (Chapter 2), 'contextualization' has been proposed as a promising approach to improve the limitations in current contextual MCS research (Chapter 3). Informed by the idea of contextualization, this chapter will be split into two sections to provide a rich description of the Chinese context.

From an indigenous view of Chinese culture, the first section identifies 'power distance and paternalism' and *'Guanxi, Renqing and Mianzi'* as two of the most representative clusters of Chinese cultural characteristics. This overview paves the way in conducting 'deep contextualization' since not only those selected characteristics greatly formulate the 'specific image' of Chinese context, but they are also able to be identified as the entry points for exploring and reasoning about the individuals' behaviour. However, rather than relying on the existing studies which draw clear boundaries between cultural characteristics and political or societal ones, this study attempts to jump out from this highly circumscribed and static classifications concentrating on how those cultural characteristics dynamically interact with other contextual factors, as well as managerial actions.

The second section will focus on the political, economic and societal context of mainland China. As one of the most significant events in China's past 40 years (Xu, 2011), the historical progress of China's economic reform will be elaborated, which not only determined China's current economic situation and the emergence of Chinese multinational corporations, but also profoundly impacted on other aspects of Chinese society. Moreover, rather than being a 'distant' historical review, the evolution of the case company (International GS) will be incorporated into the review, as the contextualization of the research case.

5.1 Chinese cultural characteristics from an indigenous perspective

5.1.1 From power distance to paternalism

Based on the literature review, it is fair to state that 'power distance' would be the mostly referred concept in the Chinese management accounting and control research domain, and the high level of power distance has been widely accepted as the typical value of Chinese culture in many studies (O'Connor, 1995; Tsui 2001; Chow, Lindquist and Wu 2001; Smith and Hume 2005). It has been extensively argued that Hofstede (1980)'s national cultural classification has certain limitations, which fails to capture the comprehensive picture of national culture and may result in fuzzy conclusions about cultural influences (Bhimani, 1999; Harrison and McKinnon, 1999; Baskerville, 2003). However, it is still reasonable to select 'power distance' - one of the five dimensions within Hofstede's classification, as an entry point for further investigation into Chinese cultural characteristics. Baskerville (2003), as one of the most critical studies about the use of Hofstede's idea in accounting research, admitted the latter is the most popular and acceptable approach in current studies in spite of its low usage in anthropology and sociology. While it is impossible to ignore the fact that a great amount of cultural studies in business-related research have been built upon this notion, the appropriate solution would be investigate the implicit meanings of those selected 'cultural values', in order to expand on one's current understanding about national culture and explain its impact on management and accounting development. In other words, the argumentation here is by no means to support Hofstede's approach as the base of cultural MCS research, but it suggests that rather than focus on the controversial nature of Hofstede's approach, new insights could be discovered if researchers explore the different implications beneath similar cultural patterns among countries.

Familism – the explanation of Chinese hierarchy

The conflict in research findings (Baskerville, 2003; Wickramasinghe, Joannides and Berland, 2010), reflects the fact that the understanding about Chinese 'hierarchy' remains superficial as long as one is restricted to the given explanation of 'power distance'. In other words, even if there is acceptance of the significance of hierarchical awareness in China, its connotation is far beyond the 'unequal power distribution' defined by Hofstede. More efforts need to be made to investigate on the particular causes of this certain phenomenon, as well as its underlying meaning in Chinese society. In fact, unlike the MCS research domain, tentative work has been published in organizational studies. Lockett (1988) suggested that when identifying 'respect for hierarchy' as one key feature of Chinese culture, its derivative assumption is the 'respect for age'. Based on a discussion about Chinese family relationships among different generations, ages and gender, Lockett (1988) proposed that the awareness of hierarchical order among Chinese people originated from their family life. Kirkbride, Tang and Westwood (1991) give a more comprehensive explanation about the hierarchical order within China by viewing conformity as a central theme in Chinese familial and societal life. 'Conformity', as a form of social ethic, expect individuals to adjust their behaviour in order to fit their prescribed hierarchical role. Under this societal environment, Chinese people are ingrained with an acceptance of hierarchical differences and are prone to adapt to such differences, resulting in worship to hierarchy.

The emphasis on the family impact is consistent with the work in the management styles and business operations of Chinese family-owned and overseas Chinese enterprises (Hempel and Chang, 2002; Efferin and Hopper, 2007; Jaggi *et al.*, 2009; Wah, 2001). For example, through an overview of Asian countries which experienced significant rates of economic development from the 1970s, Wah (2001) concludes that companies in these countries have different patterns of growth compared to the Western ones. At the same time, certain similarities within the organizational structure, management styles and operation modes are noted due to their common cultural origin. Firstly, most of the typical countries and regions, e.g. Singapore, Malaysia, Taiwan, and Hong Kong, could be classified into the so-called 'sinosphere', since they have embraced some or all Chinese cultural values generated from the Confucian philosophy. Secondly, most of the well-performed enterprises are family-owned and operated using particular techniques of people management, organizational structure, leadership style and strategy.

The great success of family enterprises in the Chinese communities led researchers to investigate the implication of Confucianism. Almost all of the Confucian related management studies acknowledged that this specific philosophy underlies the infrastructure of Chinese social ethics and orders, of which the ultimate expression is 'Familism' (Redding, 1994; Lockett, 1988; Wah, 2001; Efferin and Hopper, 2007; Hempel and Chang, 2002; Pun *et al.*, 2000). Familism represents the primary and core role of the family in Chinese societies, in which the maintenance of family relationships is the priority of individual life, and the circumscribed responsibilities and obligations for preserving such relationship are expected to be complied with. In Confucian doctrine, familial relationship is built upon a strict hierarchical order which can be summarized as 'Xiao', or 'being filial piety' (Efferin and Hopper, 2007; Hempel and Chang, 2002). Filial piety describes the relationship between parents and their children in terms of two mutual obligations. Firstly, Confucianism expects that Children should show respect to their parents, accept their instructions, protect their dignity and meet their demands as much as possible. Secondly, parents are expected to behave as a good model for their children, in which they need to educate their children, correct their behaviour and direct them to a right lifestyle. 'Filial piety' emphasizes the dependent role of children in the family relationship, such that the hierarchical awareness is deeply rooted in their early childhood and eventually formed as a taken-for-granted perception of Chinese people.

This particular family orientation impacts on the management of family-owned business. Wah (2001) argues that due to the deep influence of familism, it is quite natural that Chinese people are prone to, or perhaps even expected to mix up family and business issues. Therefore, the meaning of family hierarchy is transposed to the organization. In family owned companies, the organizational formality is frequently replaced by familial hierarchical power, where the management position is determined by the seniority in family rather than components and skills. Confounding family relationships in a business scenario leads to specific management approaches utilized in terms of centralized decision making, subjective performance evaluation, restricted participation and patriarchal leadership (Lau and Young, 2013; Xue *et al.*, 2005; Whitley, 1999; Hempel and Chang, 2002; Efferin and Hopper, 2007; Wah, 2001). The family-oriented system reflects the significance of hierarchical power in management level since the concomitant power privilege of top managers downplays the subordinates' expression of alternatives, and weakens their delegated autonomy and innovative motivation. Correspondingly, subordinates tacitly accept their passive role in management by complying with supervisory arrangements, which is similar to the approaches used for maintaining harmonious family relationships (Hempel and Chang, 2002).

Paternalism - the evolvement of familism in Chinese modern organizations

This particular management system is not only revealed in family-owned enterprises and overseas Chinese communities, but also in various types of domestic Chinese firms. In a recent literature review of cross cultural management studies in China, Dong and Liu (2010) argues rather than being diminished as a result of economic progress and globalization, the idea of family oriented hierarchy continues to prevail in contemporary Mainland China. They emphasize that the Chinese political system plays a supportive role in reinforcing the Confucian hierarchical idea and facilitates its promotion from a familial to the institutional level. More precisely, Dong and Liu (2010) argue that current Chinese culture is a hybrid of traditionally ancient philosophy (Mostly Confucianism), Communist/socialist ideologies and the new-born idea of market socialism. Based on this cultural setting, the organizational structure and the subsequent management system appear to be established only if both political and market demands can be satisfied. While political philosophy pays great attention to the centralized control, collective decision making and unified criterion, it somehow caters to Confucian ideas which emphasize a circumscribed social role, conformity, compliance, and societal harmony.

The organizational structure of Chinese state-owned enterprise (SOE) is a typical case that reflects political influence on business. Chinese SOE incorporates two systems: the business system and the Chinese Communist Party (CCP) system. While the business system may be in accordance with Western practices, the CCP system seeks to monitor whether company's operation is consistent with governmental central plan and 'social control' requirements. In practice, the business system is always subject to the latter and the leader's ability is constrained by this parallel structure. The power distribution and the concomitant responsibilities are clarified through the CCP system, whereby a strong hierarchical awareness can be seen even from the very top level of the management.

Dong and Liu (2010) provide an indigenous explanation about the formation of hierarchical awareness in current Chinese business operation; however, a greater contribution of Dong and Liu (2010) refers to the mediating role of Confucian-based familism in the process of CCP system. More precisely, Dong and Liu (2010) argue that although the underlying hierarchical difference of CCP system is quite impersonal and dogmatic, Confucianism seems to relieve the autocratic nature within the system and help with the application of CCP system in organizations. In other words, since family hierarchy is a given aspect of Chinese society, people would show less reluctance to the hierarchical differences and accept such inequality under a quasi-family scenario.

In fact, it is a quite common standpoint in China to recognize an enterprise as a 'big family'. For an example, Lau and Young (2013) argue that the emphasis on family values in the workplace is proposed to improve the affective ties among members of an organization, whereby a relation-based form of governance can be achieved in order to build harmonious work environment, and powerful group cohesion. Based on the quasi-familiar atmosphere, the hierarchical order is paternalistic in nature. The paternalistic management can be understood as individuals who in powerful position should identify their subordinates as their children; therefore, the supervisor-subordinate relationship implies the filial piety of Confucian familism (Redding, 1994; Redding, 2005; Dong and Liu, 2010; Chen *et al.*, 2014). In effect, the use of CCP system in business and its concomitant hierarchical differences is a form of state-centred paternalism (Redding and Witt, 2007; Lau and Young, 2013).

The proposition of paternalistic leadership, on the one hand, reasserts the significance of hierarchical order in Chinese business and management practices because of the inherent patriarchal characteristic. But on the other hand, and perhaps more importantly, Chinese paternalism implies that such a hierarchical order is far beyond the definition of 'power distance', and it should not be automatically recognized as an autocratic or oppressive type of governance that one may associate to the notion of 'high power distance'. In contrast, a paternalistic leadership has often been seen from a positive perspective because its Confucian root is based on favourable moral principles (Lau and Young, 2013). More precisely, the 'filial piety' as described above, indicates how the harmony ideal of Confucianism can be achieved in real world due to its ultimate emphasis on bi-directional obligation. From an ethical and moral perspective, child's compliance is only one side of the mutually social mechanism; the obligations of the parent in terms of supplying direction and taking care of their children have been argued to play a more important role in shaping the harmonious atmosphere. While 'filial piety' has been transformed into a form of paternalistic leadership in organizational management, leaders have been automatically attached with quasi-parental duties; therefore, although they are empowered to make decision or restrict delegation, their actions are expected to be in accordance with fatherly benevolence, and being concerned with propriety, virtue and moral leadership, and acting in the interests of subordinates (Lau and Young, 2013; Chen *et al.*, 2002). 'Filial piety', as the underlying assumption of paternalism, suggests an interdependent relationship between 'power and obligation' in Chinese context, in which the hierarchical differences can be accepted in workplace without fierce conflict or resistance, as long as the corresponding obligations can be fulfilled.

Additionally, the use of paternalistic leadership has been argued to facilitate the development of organizational culture and management controls (Dong and Liu, 2010; Chen *et al.*, 2014; Chen *et al.*, 2002). Chen et al. (2002) argues paternalistic leadership is able to improve organizational performance since the trust between employees and managers can be enhanced through the affective relationship within paternalism. The reciprocity value would be perceived from both sides in order to moderate the institutional rigidity. Chen et al. (2002) further states that the affective trust could eventually become loyalty to supervisor, which is much more strongly associated with employee performance than organizational commitment; Moreover, it is a more reliable tie which would be sustainable for a long time.

However, it is reasonable to criticize that paternalistic leadership is quite subjective and heavily depends on leaders' own personal values and integrity. Wah (2001) points out that because the judgment and criteria are based on moral values; aspects such as staff appraisal are not totally relied on job performance but determined by certain subjective evaluations. Therefore, even major mistake in the workplace would not necessarily lead to the employee's dismissal as long as his/her behaviour was in accordance with certain moral standards, e.g. sometimes the judgment is based on a personal virtue such as 'being a kind person'. Lau and Young (2013) none the less state that paternalistic governance can lead to nepotism due to an over-emphasis on affection or relationship, and the negative impact can be seen not only in performance evaluation, but also in employee recruitment.

Nevertheless, it is necessary for researchers to embrace a neutral attitude towards paternalism and its underlying Confucian social ethic. It is a double-edged sword whereby the outcomes are depended on the way of usage. Virtually, because of its Confucian root, a relation-based Chinese governance system seems unlikely to be completely transformed to rule-based one (Lau and Young, 2013). Therefore, rather than discuss which way is better than the other, the main challenge for both Chinese and foreign scholars is to find a possible trade-off, whereby the advantages of both sides can be identified to improve current Chinese management, accounting and control systems.

5.1.2 *Guanxi*, *Renqing* and *Mianzi*

Compared to 'power distance' and 'paternalism', it seems that *Guanxi* has not yet been emphasized as a Chinese contextual specific in management accounting research domain. Although the term *Guanxi* has already been referred to in the initial Chinese-related management accounting studies (Scapens and Yan, 1993; Firth, 1996), it was simply translated into a personal relationship or connection and argued that it is only manifested in particular circumstances without significantly influencing on management accounting development. Arguably, this approach underestimated the role of *Guanxi* in Chinese context, which resulted in the lack of research motivation to examine the significance of *Guanxi* in Chinese context and its impacts on MA development. There are only a few current studies discussing the possible implications of *Guanxi* on MA practices development and information dissemination (Islam and Kantor, 2005), ownership and family control (Carney and Gedajlovic, 2002), and strategic management (Luo and Chen, 1996). Therefore, it seems imperative to fill in this research gap since the role of *Guanxi* has been greatly emphasized in relevant business, organizational and management research domains, in which *Guanxi* is not only the core component of Chinese context, but also one that is implicitly associated and dynamically interacted with other Chinese-specific characteristics.

Guanxi as reciprocal ties

Lockett (1988) is one of the earliest studies which gave an explicit explanation of *Guanxi*. By analysing relationships between Chinese culture, organizational structure and management successions, Lockett (1988) argues *Guanxi* is one of the most crucial shared values in China. He argued while *Guanxi* can be simply understood as 'interpersonal relationship' and 'networking' between two individuals, its nature can be expanded to a continuing, ties-based relationship determined by the idea of reciprocity. More comprehensively, it reveals three basic elements of *Guanxi* formulation. Firstly, the continuity of *Guanxi* indicates that unlike a contract or commitment strictly specified in legal terms, *Guanxi* is similar to 'trustworthiness' which requires a long-term, constant and voluntary maintenance by both sides involved in a *Guanxi* relationship. Secondly, *Guanxi* cannot be built unless certain ties are already shared by individuals within the relationship. Rather than being generated from formal demands in terms of contract, rule or legitimacy, the 'ties' are usually displayed in terms of similar family and clan backgrounds, or other shared experiences between two persons such as neighbourhood, same region, belief, alumni, and work colleague. Thirdly and the most essentially, a *Guanxi* relationship between two persons can be jeopardized or even terminated if either side within this relationship broke the rule of reciprocity. In other words, each person within a *Guanxi* relationship is willing to provide certain types of favour to the other one in order to maintain *Guanxi*. However, he/she will also expect his/ her favours could be repaid by the other person at a later time, irrespective of the nature of the favour or repayment. Lockett (1988) explains how the unique *Guanxi* characteristic is reflected in the way Chinese people behave in real life. Although formal organization structures are apparently based on impersonal bureaucracy, the *Guanxi* plays a major role in daily practices which affect the development of western organizational structures and management styles in China.

In Chinese business and management research, the investigation on *Guanxi* has generated three research stages. The first research stage explicitly acknowledges the pervasiveness of *Guanxi* in the Chinese society, whereby the research focuses on an evaluation of the outcomes of *Guanxi* in business and management development. While studies under this research stream are largely motivated by the western capital investment and joint ventures in China, attention is paid to incorporating *Guanxi* into certain similar notions in western contexts such as 'relationship marketing' and 'social capital' (Fock and Woo, K-S., 1998; Fan, 2000; Hartmann *et al.*, 2010; Shi *et al.*, 2011; Wang, 2007; Gilbert and Tsao, 2000; Lin and Si, 2010; Szeto *et al.*, 2006; Gu *et al.*, 2008; Carlisle and Flynn, 2005). In particular, the reciprocal nature within *Guanxi* has been frequently discussed to highlight a pattern of exchanging favours, which can be used to improve the satisfaction, trust and mutual profit exchange between marketers and customers, and therefore enhancing the competitive advantage and marketing network for companies (Fan, 2000). Additionally, scholars investigate the possibility of transposing *Guanxi* from individual to corporate and organizational levels. Based on social capital theory, Gu, Hung, Tse, *et al.* (2008) argue that organizations can internalize *Guanxi* as a corporate core competence, whereby *Guanxi* can be used as a governance mechanism to improve market performance.

These studies concentrate on the outcomes of *Guanxi*, or to be more specific, what benefits the business activities are able to gain from it. However, while positive relationships have been revealed between *Guanxi*, corporate efficiency and reduction in transaction costs, negative outcomes in terms of time consumption and absence of commitment are also manifested in the application of *Guanxi*. Yet, researchers fail to explain why the benefits or harms generated from *Guanxi* are only measured in terms of an 'outcome'. As Bedford (2011) states, such pragmatic and result-oriented studies ignore the underlying social meanings of *Guanxi*, and they are less concerned about the development of *Guanxi* and how individuals behave in the exchange process.

Renqing – Guanxi as affective ties

This concern mentioned above leads to the second stage of research which attempts to explore the underlying assumptions of *Guanxi* by concentrating on the implicit meanings of special 'ties' within *Guanxi*. Researchers argue that each *Guanxi* is an in-group relationship, which depends on certain shared ties to distinguish itself from the out-groups, as well as applying different treatments between the two oppositions (Chen and Tjosvold, 2006). Most studies in this research stage investigate Chinese family business because family has been acknowledged as the closest tie within Chinese societies. In according with studies in Chinese leadership, those *Guanxi* related studies also accept that China is a family-oriented society in which the needs of the family and other family members are expected to be fulfilled in the first place (Hempel and Chang, 2002). Since *Family Guanxi* is the most basic and earliest one for Chinese people, the affective nature of family tie becomes the benchmark for developing other types of *Guanxi*. In other words, the strength of *Guanxi* is depends on the types of tie which is determined by different degree of affection (Wah, 2001; Hempel and Chang, 2002).

The emphasis on the role of affection eventually contributes to the introduction of '*Renqing*' concept into *Guanxi* research. *Renqing*, as the Chinese philosophical expression of affection, has been identified as the precondition to determine the development of *Guanxi*, as well as an indicator to measure the closeness of *Guanxi* relationship (Park and Luo, 2001; Shi *et al.*, 2011). *Renqing* represents an individual's affective responses to other people who are involved in his/her *Guanxi* network, which is also the main guidance that Chinese people used to get along with others and evaluate the robustness of their *Guanxi* relationships. Firstly, *Renqing* requires people to reflect others' feelings and show empathy or provide favours to others when they are in need. Those 'giving' automatically become another's social obligation to repay the favour at a later stage. In other words, *Renqing* results in the affective-based exchange of favours, which generate the rule of reciprocity in *Guanxi* relationship. Secondly, *Renqing* exists in any kinds of *Guanxi* relationship, which only varies in function and the degrees of strength depending on the underlying ties of *Guanxi* relationship. More precisely, *Renqing* plays the strongest affective role in the closest family tie based *Guanxi* relationship. In this scenario, *Renqing* emphasizes the voluntary nature of obligations within family members and expects self-sacrifice and dedication to maintain healthy *Family Guanxi*. The reciprocal feature of *Renqing* is increasingly manifested in less affective-based ties such as the *'Friend Guanxi'* and *'Colleague Guanxi'*. Although such *Guanxi* relationships are also expected to be built on the base of affective responses, ignoring obligations would be seen as an inappropriate treatment to long-term *Guanxi* maintenance, which lead to the loss of trust and may jeopardize the development of *Guanxi* (Wang *et al.*, 2008; Wang, 2007).

The *Renqing* concept explains the underlying affective structure of *Guanxi* relationship, which indicates that *Guanxi* may display various forms due to the different degrees of perceived *Renqing* and the concomitant demands on reciprocity in *Guanxi* relationship. This idea leads researchers to specify the types of *Guanxi* to develop suitable *Guanxi* relationships in business and management activities (Fan, 2000; Bedford, 2011; Park and Luo, 2001; Wei *et al.*, 2010; Wang *et al.*, 2008). Bedford (2011) argues the use of *Guanxi* is widespread in workplace under current Chinese business and management phenomena. He defines '*Working Guanxi*' and '*Backdoor Guanxi*' can be developed in workplace, and suggests although the foundation of those two types of *Guanxi* relationship is the *Renqing* affection, the development of *Guanxi* in workplace implies a mixture use of *Renqing* to form a more instrumental or even utilitarian *Guanxi* relationships in workplace.

Working Guanxi describes a situation where individuals interact with their co-workers and business acquaintance outside their organizations, in order to gain resources and connections that can be used in their own job. Building a *Working Guanxi* depends on individuals' similar intentions to achieve their work target; therefore people within a *Working Guanxi* will be more concerned with an instrumental exchange process and measure what practical favours or information they can get from this *Guanxi*. However, they would still consider the role of affection and expect to form a closer *Renqing* tie in the workplace. Bedford (2011) explains that Chinese people believe that a high appreciation of *Renqing* reflects an individual's intelligence and capacity in the workplace, which help build trust, cooperation and reciprocal favour exchanges, as well as determining the quality and durability of *Working Guanxi*.

Whilst *Working Guanxi* typically involves individuals of equal positions, Backdoor *Guanxi* is often built between individuals who have asymmetric status or can be differentiated from the resource and power they have. In Bedford (2011)'s definition, Backdoor *Guanxi* is an instrumental, or even utilitarian relationship, which is usually to be built through exchanges of power and resource for personal benefits in terms of money and power. Therefore, this specific *Guanxi* relationship is at risk of corruption or bribery. The dynamic of *Renqing* is thus emphasized to mediate those potential risks. More precisely, *Guanxi* is unlikely to be built between two strangers and an intermediary who has either family or Working *Guanxi* with both sides is required within the proposing Backdoor *Guanxi* relationship. In other words, the intermediary invests his/her *Renqing* obligations by providing or repaying the favour of introduction and eventually enables a Backdoor *Guanxi* relationship. Therefore, the development of Backdoor *Guanxi* is a selective process since it presupposes individuals within such relationship are emotionally connected by *Renqing*, even if it is 'borrowed' from the intermediary.

Mianzi – Guanxi as hierarchical ties

Bedford (2011) enriches one's understanding of *Guanxi* by explaining a possible model for *Guanxi* development in business and management practices. It also explains the dynamic role of *Renqing* in the process of *Guanxi* building, where the affective nature of *Guanxi* largely differentiates itself from western notions such as relationship marketing or social capital. Additionally, as the third stage of *Guanxi* research, the introduction of *'Mianzi'* concept addresses the final gap in this research topic. *Mianzi*, literally translated as 'face', represents in various forms of the individual's social standing, position and personal status (Lockett, 1988; Kirkbride *et al.*, 1991; Park and Luo, 2001; Bedford, 2011). *Mianzi* is a universal human behaviour since it is not surprising that people in other cultural groups are also concerned with the significance of face. While 'losing face' means an individual's social status is criticized or depreciated by other people, it can be identified as the loss of self-esteem or humiliation. Therefore, individuals will seek to improve or reclaim their social status in order to 'save face'.

However, in the view of Chinese people, *Mianzi* is much more complicated than 'face losing or saving'; its alternative meaning can be described as 'face giving', which is an intangible social function within *Guanxi* development. In other word, Chinese people developed great sensitivity to *Mianzi* and identified the underlying social status of *Mianzi* as the important component of exchange of favour in *Guanxi* relationship. Within a *Guanxi* relationship, the reciprocity rule can be voluntarily accepted only if both sides within the relationship understand and respect other's social status. The *Guanxi* relationship can be smoothly maintained in long-run because the exchange of favours symbolizes 'face giving' or 'saving of other's face' (Park and Luo, 2001; Gilbert and Tsao, 2000). The *Mianzi* would play a more profound role in a particular *Guanxi* if individuals within this relationship show dramatic differences in social status or power. Drawing on the Backdoor *Guanxi*, Bedford (2011) argues large differences in status/power empower *Mianzi* as a form of symbolic capital (Bourdieu, 1986), which enables *Mianzi* to convey power in a *Guanxi* development. Therefore, individuals in powerful position may take advantage of their *Mianzi* by inducing others' desire to develop *Guanxi* with them (Wong, 2007). Consequently, the explanation to the active function of *Mianzi* in *Guanxi* development suggests Chinese people are very aware of the status/power difference, which indicates that 'hierarchy' would be one of the important presuppositions of *Guanxi* relationship in China.

Confucianism – the philosophical root of Guanxi

The concern about the hierarchical structure of *Guanxi* leads to a more in-depth understanding of *Guanxi*, in which researchers attempt to discover the nature of Chinese society, in order to explain the origins of *Renqing* and *Mianzi* concepts, as well as the reasons why *Guanxi* can be pervasively developed and rooted in Chinese society. Those studies are dedicated to the interpretation of Confucianism and its implication on business and management development in Chinese context, and identify this indigenous philosophy as the traditional roots of *Renqing*, *Mianzi* and *Guanxi* (Bedford, 2011; Ho and Redfern, 2010; Hempel and Chang, 2002; Kwan and Ofori, 2001; Park and Luo, 2001; Wei *et al.*, 2010; Tong and Mitra, 2009).

While Confucianism is a historical legacy and a large collection of philosophical ideas which impact on each aspects of Chinese society for more than 2000 years, the very basic concept – 'Wu Lun', has been selected to explain the *Guanxi* characteristic in current studies. 'Wu Lun', as the translation of 'five relationships', represents five cardinal types of relationship in China, which includes Jun-Chen (emperor-subjects), Fu-Zi (father-sons), Fu-Qi (husband-wife), Xiong-Di (elder brothers-younger brothers) and Peng You (friend-friend). The 'Wu Lun' doctrine implied in *Guanxi* relationship, which can be explained from three aspects. Firstly, 'Wu Lun' indicates the situational nature of Chinese society since each person will be 'pre-allocated' multiple social roles and the appropriate behaviours are situationally differentiated from the roles. Thus, 'Wu Lun' provides several rules to restrain individuals' behaviours in their different roles. Those rules can be simply described as 'benevolent emperor- loyal subjects, kind father - filial sons, righteous husband - submissive wife, gentle elder brothers - obedient younger brothers, and trustworthy and faithful friends' (Cheng *et al.*, 2004; Yan and Sorenson, 2004). While Confucianism is the cornerstone of Chinese societal and cultural infrastructure, the pre-assigned social roles and the relational guidance greatly formed the identity of Chinese people. Therefore, within the social activities, it is 'common sense' for Chinese people to pay great attention to their own roles, positions and according behaviours, in order to maintain and develop *Guanxi* relationship.

Secondly, it is reasonable to state that Chinese society is greatly affective and family oriented based on the 'Wu Lun' doctrine. It is not only because three of the five cardinal relationships represent familiar relationship, but the rules set for the other two relationships are also based on human emotions. For example, 'Wu Lun' draws a picture that the prosperity of a nation depends on an emperor who behaves benevolently to take care of his subjects. However, the term 'benevolent' is quite affective which is hard to be evaluated using concrete criterions. Because of the emphasis on affection in 'Wu Lun' doctrine, it is not surprise why *Renqing* is so crucial in *Guanxi* development. While the perceived affection determines the exchange of favours, *Renqing* seems to be the only important measurement of the intensity of *Guanxi* relationship.

Thirdly, 'Wu Lun' also reflects the hierarchical nature of social order in Chinese society since four of the five pre-set cardinal relationships are strictly hierarchical. Confucianism advocates that harmony is the premise of social development, and in order to maintain a harmonious society, everyone within the society is expected to be responsible to his/her allocated social role, and respect others' role duties at the same time. This proposition generates *Mianzi*, which can be identified as the symbol of social responsibility and the concomitant status and positions. Therefore, while the social role is determined by the underlying hierarchies, *Mianzi* would become the alternative form of hierarchical privilege.

The investigation of Confucianism provides the foundation to understand *Guanxi*, its linkage with *Renqing* and *Mianzi*, as well as the underlying philosophical assumptions within those concepts. Perhaps a more significant contribution is those studies may shift researchers' attitudes toward *Guanxi* relationship. Rather than being seen as a tool that can be utilized to take advantage from, or a hazard factor should be avoided, *Guanxi*, because of its root in Confucianism thoughts, actually represents the social ethic of Chinese society. In other words, the combination of *Guanxi*, *Renqing* and *Mianzi* is an organic whole which dynamically contributes to the social development. Therefore, the development of *Guanxi* could be identified as the Chinese business and management ethic, which reflects the 'Chinese way' in contemporary economic progress (Ho and Redfern, 2010; Ahlstrom *et al.*, 2010; Huang, 2003; Hwang, 2000).

This idea is consistent with several Chinese indigenous views about the *Guanxi* identification. The most representative work is Hwang (2000)'s theory of 'Chinese Relationalism'. Based on a deep analysis of the inherent structures of Confucianism, this study identifies *Guanxi* as the external expression of Confucian principles, which can be generalized through a *'Renqing'*- *'Mianzi'* theoretical framework. The dynamic interactions between the two factors yield a different social pattern, which explains the Chinese philosophical construct, as well as its practical meanings in current Chinese organizational structures. In the specific management research domain, Wei, Liu, Chen, *et al.* (2010) investigates the *Guanxi* relationship between supervisor and subordinates and its implication on career development in Chinese firms. They argue that unlike the western business relationships, *Guanxi* would not disappear but only vary in intensity and closeness. *Guanxi* maintenance, as a principle of Chinese daily life, generates a specific view that Chinese people prefer to expand the workplace relationships to their personal after-work life. The mixture of working and personal realms in *Guanxi* development indicates subordinates are willing to cultivate and maintain personal-*Working Guanxi* with their supervisors, in order to enhance their status, to receive better feedback from supervisors, as well as help with their career promotion. This specific *Guanxi* can be fairly developed through the employment of political skills, which is often deployed in social activities and emotional networking during off-work circumstances. Furthermore, if researchers accept the premise that *Guanxi* is the reflection of Chinese ethic in business and management realms, it is fair to say that the investigation on *Guanxi* relationship may provide opportunities for explaining other Chinese characteristics in terms of 'power distance'.

Fan (2000) emphasizes that rather than being a static relationship, *Guanxi* is a dynamic process and so the variety of *Guanxi* types indeed reflects different underlying motivations and values. In his model of three types of *Guanxi*, both the *Family Guanxi* and *Helper Guanxi* (similar to *Working Guanxi*) are based on affection-ties and only vary in the degree of affection and the level of reciprocity demands. However, he proposes the *'Business Guanxi'* as the third type of *Guanxi* relationship and defines it as a process of seeking business-to-business or business-to-government solutions through personal networking. Fan (2000) argues the *Business Guanxi* is largely conducted between strangers with little trust and commitment within the relationship. Therefore, this type of *Guanxi* is purely utilitarian, which is built on the exchanges of money and power and leads to possible corruption. The possible linkage with illegal or corrupt behaviours in business indicates that *Guanxi* may negatively impact on company's performance and management, and more than that, *Guanxi* as a unique Chinese characteristic, may eventually diminish through the progress of open market system.

5.2 International GS within China's economic reform

5.2.1 Overview of International GS

Since its establishment in 2011, International GS has already been one of the largest transnational construction companies in Western China. According to the company's internal statistics, by the end of 2011 it has signed more than 300 overseas construction contracts, representing about 800 million US. As one of the top 200 international contractor (ENR-construction, 2015), Africa is the main targeted market for this company. Although the company has deployed several working groups to Southeast Asia and India for tentative construction contracts and marketing, 17 of its 20 international sites are located in Africa which are managed and controlled by its two independent African subsidiaries. Based on company's official documents, Figure 4 shows the vertical headquarter-subsidiaries organizational structure of International GS, in which GSLZ (the head office) is in charge of three subsidiaries namely GSJN, GSJB and GSTC. These subsidiaries are located in Ghana, Zimbabwe and China and are respectively responsible for operation in south-western Africa, southern Africa and other overseas businesses.

This kind of organizational structure has been extensively advertised through its official website, publicity brochure and general mass media. As the general manager of GSLZ states:

"*…as a newly established international corporation, our organizational structure is specifically designed to be accordance with modern international enterprises. It is the initial effort we made to* *shape our new image, an image which is able to reflect our determination of building a long-run, independently-managed transnational company...*" (LZ1)

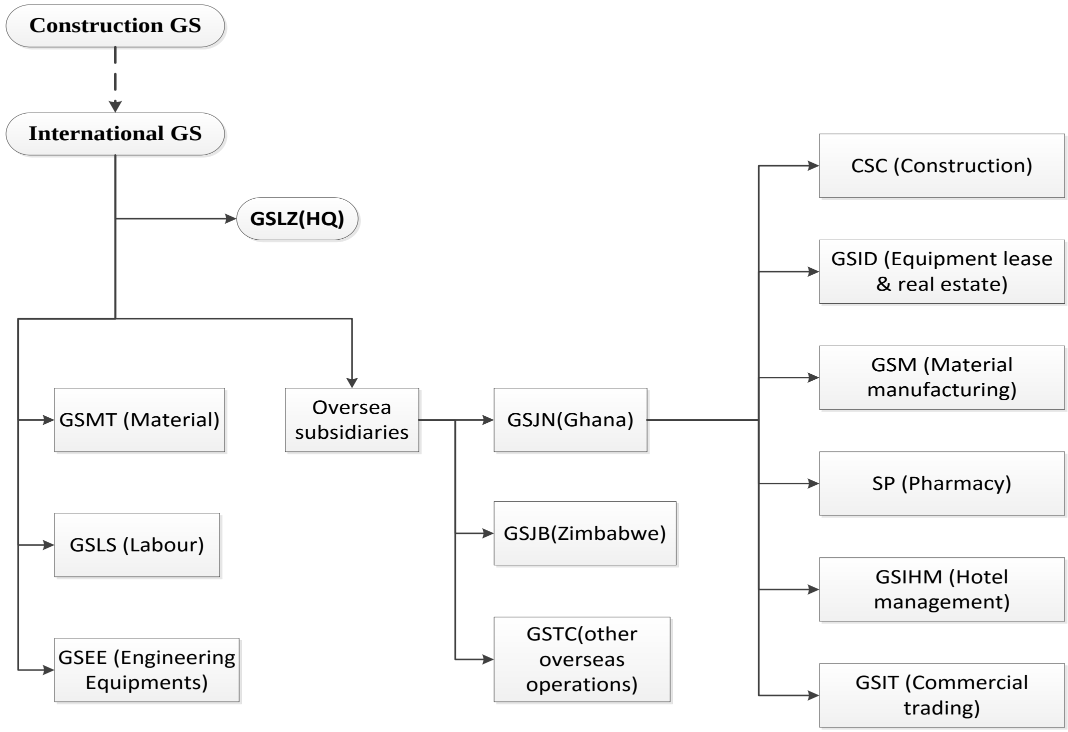


Figure 4 Organizational structure of International GS

In fact, the general manager was quite excited about their 'new image' as he repeatedly emphasized the potential opportunities implied in this modern enterprise model. However, the connotation is that they detoured away from their previous history, in which the precursor of International GS is the overseas department of Construction GS - a provincial governed state-owned construction enterprise.

The intentional overlook of the SOE background is more manifested in their overseas operation. More precisely, while GSJN is just one of the subsidiaries of International GS under its whole organizational structure, it is registered as a holding limited company in Ghana with a brand new name which is barely connected with its headquarters or the 'State'. One director of GSLZ elaborated that:

"*…We are concerned with public image very much in African markets… just imaging how disturbed the local people will be if they always see words 'China' or 'State' printed on the building fences* *and banners around our construction sites, they may consider it is a sort of economic invasion… so, it is one of the localization strategies used to shape subsidiary's local identity, because an English brand is definitely more attached with local people and we tried to give them the first impression that we are not foreigners…*" (LZ8)

This strategy seems quite effective in shaping GSJN's international and independent image since its SOE background has even been blurred from the inside. Interviews with local managers showed although they know GSJN is a Chinese transnational company, and except for two top managers from the accounting department, none of the middle and supervisory managers understand the historical associations between this company and the provincial government back in China.

It is fair to state top managers of International GS made great efforts to claim their independence in operation and management, by which positive effects were revealed at least from a public and local perspectives. Yet, International GS has not completely shed its SOE identity. In fact, its rapid expansion and development in overseas markets are largely attributed to the former SOE identity. As the deputy manager of GSLZ stated:

"*…we can't achieve current status if we don't have Construction GS as our backup. In this sense, International GS is not a newly-established company because our management experience, labour teams, techniques and business networks are largely inherited from the overseas department of Construction GS. It is a process of accumulation which can be dated from 60 years ago when we took over the first political aid construction project in Africa…*" (LZ2)

Moreover, accompanied by the further investigation, it is found that under the veil of 'independent transnational' image, a more compelling and somehow divergent facet of International GS is revealed. More precisely, the activities of Construction GS and the concomitant force of SOE had not only built the foundation of company to where it stands now, but it also closely associated with company's current operation and in large extent directing and supporting its overseas prospect. Figure 5, as the organizational structure of Construction GS clearly shows that although International GS is an independent corporation from external perspective, within the broad blueprint it is merely one of the six parallel departments which is subject to the 'holding group' of Construction GS. The particular duality of International GS indeed reflects its hybrid feature in organizational structure and company values, for which it might be inappropriate to exclusively classify this company as a SOE or an independent transnational corporation.

The complex and inherited relation between International GS and its SOE context is not an exceptional case, and rather it partially reveals the current situation of SOE restructuring taking place in China. SOE restructuring, as one the most crucial aspects of economic reform, has been motivated by the need for SOEs to become the leading power of economic development. However, it remains there are some unresolved issues in terms of the blurred boundaries between management and ownership. More precisely, institutional rigidity, the disorder of ownership and the low level of managerial autonomy have always been criticized as the characteristics of Chinese SOEs (Chen, 2009). The ownership-management ambiguity suggests a political hesitation over SOEs in terms of control and devolution despite the fact that the privatization of SOE is key objective of central government. From a managerial perspective, the specific MCS design and adoption are likely to be complicated and distorted since managers' autonomy will be affected if they are involved in this ownership dilemma. As the general manager of GSLZ stated:

"*Although it is a reformed new company with the similar structure to many modern companies, for better or worse it is still a SOE so the State influence and governmental interference are manifested in many aspects of the company including the management and operation.*" (LZ1)

In this sense, prior to analysing International GS's MCS, it is necessary to review the progress of China's economic and SOE reform and their potential influences on this specific company. In order to do so, the development course of International GS would be included in the review because the company's history essentially overlaps with the reforms (See Table 2 for an overview). More precisely, as the predecessor of International GS, the overseas department of Construction GS had been initiated in early 1980s when the economic reform started. The historical review is likely to provide sufficient information about the transformation and restructuring of this company, by which it could help to assess whether and how the subtle SOE identity was formed and inherited to impact on company's current strategy formation and MCS design.

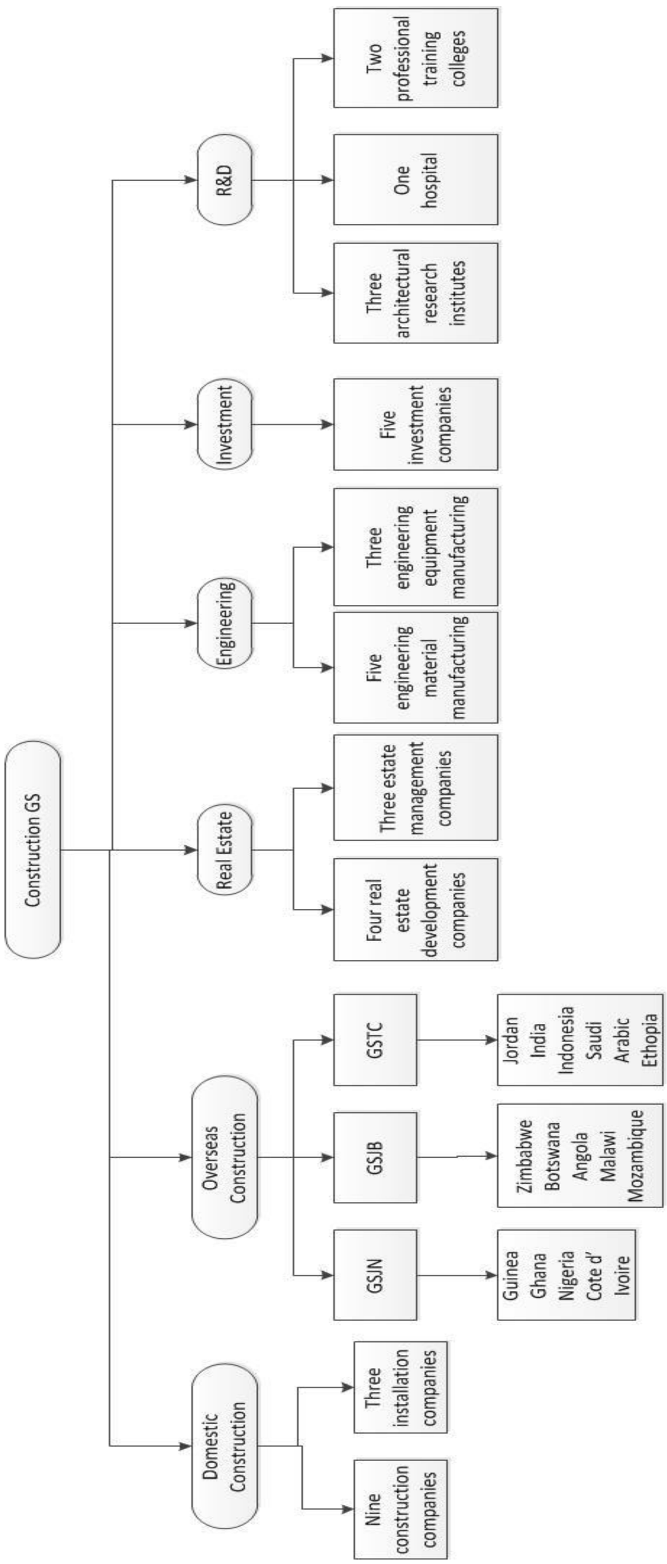


Figure 5 Organizational structure of Construction GS

Moreover, from a theoretical perspective, the historical archives would also display rich economic, political and even societal contexts within and around the company, by which possible institutional factors are able to be identified, and the impact of relevant institutional changes and imprints would also be examined.

5.2.2 The development courses of International GS

Table 2 Development history of International GS under China's economic reform

Timeline / **Development**	*1953-1978*	*1978-1992*	*1992-2000*	*2000-present*
Economic Reform	Centrally-planned Economy	Start of Economic Reform, CRS, Dual-track Pricing	Extensive Economic Reform, SOE Restructuring, Open-up Policy	Entry to WTO, Extensive China-Africa Cooperation
Company's Objective	Construction Project under the State's Mandate	Overseas Aid Project, Meet Political Demands	Long-run Overseas Operation, Business Projects	Diversified Operations, Expanding African Markets
Governance	Administrative, Division of Ministry	Less Centralization, Project Focus, Fully SOE	Shareholding, Board of Directors	Disguised Corporatization (Big State Shareholding), Reduced Social Functions
Key MCSs	Cheng Jian Zhi, Military Control	Contracting & Bidding System, Project Management	Modern Enterprise Management System	Unified MCS rules, GSLZ for designing MCS for overseas operation
Key Changes	Aid-Project, Emergence of Overseas Operation	Expanded Overseas Work Centre (Permanent)	Self-governed Overseas Department (Predecessor of International GS)	Establishment of International GS (GSLZ as Head office)
Page Number	135-139	139-147	148-153	153-158

5.2.2.1 Centrally planned economy, aid project and the emergence of overseas operation

Centrally planned economy

Founded as a socialist republic in 1949, China in its early stage greatly followed Marxism-Leninism as the principle of governance, in which public ownership is the premise of the national economy system. In order to establish the absolute dominance of public ownership, a comprehensive socialist reconstruction was conducted in the entire country. More precisely, the reconstruction had been carried through in three aspects which included the suppression of capitalism ideology (and industry and commerce), confiscating bureaucratic enterprises and foreign assets, and transforming individual to collective agriculture through land reform (Chen, 2009). The completion of socialist reconstruction in 1956 proclaimed the exclusive status of public ownership, which in turn paved the way for implementing planned economic system in China.

From an economic perspective, the unique feature of planned economic system refers to the mechanisms used for resource allocation, in which production and investment by enterprises are directed by the economic plan, and the relevant economic inputs are obtained through internal transfers rather than purchased from the market (Mandel, 1986). While the general definition of an ‘economic plan’ indicates that the decision-making for such a plan can be made at various levels of government to enterprise, it does not reveal the political significance of such a system in socialist China. Decentralized economic planning was not applicable in China as its planning system was largely inherited from Soviet Russia mode, or namely an administrative command economy (Ellman, 2009). More precisely, as a highly centralized version of planned economy, the Soviet mode emphasized the central authority of the State as the ultimate planner of the national economy, by which a top-down administrative chain of command was generated to organize and supervise the execution of plans. To a large extent the establishment of this economic system can be identified as a concrete advocacy of Marxist-Leninist’s ideal of socialist states. In other words, while socialists severely criticized the capitalism and free market as the sources of inequality and exploitation, public ownership at an advanced mode is able to mitigate and eventually eliminate such “illness”. The related state planning and government interference were believed to adjust resource allocation, optimize social welfare, and finally achieve social stability and equity.

From an operational perspective, and in order to implement command planning system in China, the central government enacted the initial policy of 'unifying national financing economy' in 1950, which outlined the central controls of national income and expenses, material distribution and cash management (Chen, 2009). As a result, an additional central authority named State Planning Commission (SPC) was established to be fully responsible for making and revising national economic plan every five years, and then allocating the planned production targets to each state ministry. Prior to 1978, there were 22 ministries directly subordinated to the State Council, which covered all the key industries of national economy. At that time all of the enterprises in China were owned by the State and subjected to the control of state ministries, which means the only point of interest for these enterprises was to fulfil the targets assigned by their corresponding ministry. Therefore, it is more appropriate to recognize China's enterprises before the economic reform in 1978 as divisional administrative organizations, whose objective was to comply with commands from the higher level and to execute allocated production tasks.

'Cheng Jian Zhi' under centrally planned economy

It is inevitable that the case company (International GS) was also influenced by this centrally controlled mode because of its historical development. As the 'superior' of International GS, Construction GS is a prestigious provincial SOE in western China which now has been restructured as a holding group and fully owns more than 30 subsidiaries in both domestic and overseas markets. However, it was hardly to be entitled as an enterprise dated back to its beginning in 1950s when the nation's economy, industrial structure and enterprise were relied by the central planned system. When it was founded in 1953, Construction GS was one of the 21 subordinate divisions of Ministry for Engineering and Construction, which was mainly responsible for building projects in three provinces of western China. From a management perspective, as same to other enterprise at that time, Construction GS was managed in an administrative way since the director of the enterprise were selected from local governmental officials through the central appointment.

However, the significance of the construction industry was manifested in the post-war (1950s) since the development of other industries largely relied on an improved infrastructure. In this sense, although managerial responsibilities were limited to convey and commit command without being concerned about the economic consequences, certain management practices had still been developed to ensure the completion of planned target. The concept of 'Cheng Jian Zhi', or namely 'organic unit' had been introduced as the foundation of engineering construction during this period. As a military terminology, the original meaning of 'Cheng Jian Zhi' refers to a military organizational system, which described a fixed team of members with complete sets of specialty, clear division of labour, strict discipline and unified action. The use of 'Cheng Jian Zhi' in construction industry not only prescribed the labour and personnel service team within engineering construction, but it also emphasized the centrally administrative feature of construction enterprise, in which the collective staffing structure and deployment, and highly compliance to command were required to facilitate the fulfilment of production plans.

The core status of 'Cheng Jian Zhi' has now been largely challenged. Due to the increased opportunities for sub-contracting and outsourcing, 'organic unit' is nowadays no longer the only way for organizing labour service. However, its underlying militarized implication always remained in China's engineering construction, which in turn profoundly influenced the management ideas in this industry. For the specific case study, interviewees from different management level have stated and agreed that quasi-military management contributed to the effectiveness of construction project. As one of the project manager stated:

"*…construction work is similar to army training exercises which require unity, concentration and compliance… and these elements are especially crucial as the project delivery is always bound with deadline...*" (LZ15)

A more compelling finding is the favourable attitude towards militarized management has also been revealed in the company's top level and impacted on their decision-making of overseas operation. During the interview with the chief engineer of GSLZ, he repeatedly emphasized the significance of discipline and unity in overseas operation because:

"…*There are so many uncertainties in Africa, the natural environment, the political turbulence, or the communication difficulties, so complying with discipline would lower the risks when we enter in unfamiliar situations…*" (LZ4), and he further comments:

"…*it is also good for us to build external image, since an organized and disciplined team represents the company's culture, and the tradition we maintain since aid-project time.*"

Aid project and the emergence of overseas operation

The decision for conducting construction aid project in Africa started from 1964 when Premier Zhou proposed the famous announcement of 'Chinese Government's Eight Principles of Foreign Economic and Technological Aid' in Ghana. For long time the policy had been interpreted as one of China's fruitful diplomatic policy because the voluntary and abundant economic and technological assistance improved good relations between China and African countries, which in turn underpinned the China's political status in the international arena such as the United Nations (UN). Although the political needs have been largely replaced by economic cooperation in recent years, this policy is still applicable as an important diplomatic means as it provides the essential approach for Chinese enterprises entering African market. Political significance always spontaneously implied aid project even if now its operation mode is similar to that of a contracting project (Corkin, 2012).

Going back to 1950s, Construction GS made great efforts to build a disciplined work unit (i.e. 'Cheng Jian Zhi'), by which a large number of domestic strategic projects had been completed with high standard. Its reputable 'organic unit' was highly appreciated by central authorities, which eventually led them to be listed as one of earliest aid-project enterprises in Africa. Construction GS started their overseas construction in 1975 when they received an official instruction from the Ministry of Commerce (MOC) to conduct construction work for an aid project in a western African country. This specific assignment had been highly emphasized as a 'significant political task' to maintain China's diplomatic relations, therefore the specific project organization, coordination and management were largely controlled and supervised by the provincial government via a temporary coordination centre. In other words, the enterprise per se took no account for personnel appointment, expatriate labour service, material and equipment procurement and distribution. However, the enterprise as the main body of construction implementation, its discipline compliance, sense of unity, militarized managerial mode and political recognition had been further cultivated during the initial 7 years overseas work, by which an effective 'overseas organic unit' had been established as a solid foundation for its future overseas operation. More importantly, those reinforced and intertwined values somehow formed a unique internal identification, which has been always preserved and instilled as part of organization's culture. More precisely, during the visit to the company's head office, it was found that photographical introduction of each aid project was hanging on the wall of corridor. The deputy manager of GSLZ explained:

"*…these are our glorious history which represents the hard-working, discipline and unity and we want the new generation to learn from it and feel proud of it … and in any case, we need to remember what achievement we made today was started from aid project, or in other word, a favourable national policy...*" (LZ3)

5.2.2.2 Initial economic reform, contracting project and the predecessor of International GS

The start of economic reform

The implementation of centrally planned system had been considered as the optimal interpretation of public ownership in socialist economy; however, it was not an efficient system in practice. While the failure of this system had been explained from different perspectives, the most essential defect refers to it overlooking the significant role of market forces. More precisely, the paradox is while central government controls resource pricing and distribution for production, the market is unable to reflect the value of resources or maintain equilibrium between supply and demand. Therefore, the lack of a market price system would lead to irrational economic plans and risky decisions (Von Mises, 1947, 1990). From the practical perspective, central planning has been intensively criticized as unrealistic and resulted in inefficient resource distribution and production. In other words, researchers argue that although theoretically planning authorities may able to make objective decision based on comprehensive information analysis and 'trial and error', this was hardly a feasible approach because of the cost of obtaining information, interest conflicts among administrative levels, capability and knowledge of planners and the environment change and uncertainty (Chen, 2009).

Those practical limitations urged the authorities to re-examine its economic system, which eventually led to China's economic reform in 1978. It has been acknowledged China's reform processed in gradual manner, which can be separated into two stages (1978 to 1992, and 1992 to present). Generally speaking, the first reform stage of dual track system was started from 1978 to 1992. The main theme during this period was to introduce the idea of liberal market into Chinese economy, by which the self-regulation of market was expected to be used as a complementary tool for economic planning. From the operational perspective, as the only form of enterprise in the beginning of Chinese market, the operation, vitality and production of SOE to a large extent determined the Chinese economy; therefore SOE reform has always been identified as the essential subject of China's economic reform. Because the SOE had been completely controlled by central government and its operation had always been intertwined with administration, the primary goal of SOE reform was to create a gradual decentralization of control from central government to local levels, which in turn would achieve a separation between ownership and operational management rights.

The profit retainment trial in 1980 could be identified as the start of SOE reform (Xu, 2011). The policy empowered enterprises to retain a certain portion of profit (maximum 20%) for their own use, as long as they achieved the planned profit delivery. As an incentive mechanism, this measure increased financing resources, which in turn improved enterprise's autonomy and motivation to achieve productive efficiency. Further reform had been made in 1984 when profit delivery was replaced by taxes. As a significant step in the economic reform progress, this approach disentangled the complex profit distribution relationships between the State and enterprise. More precisely, it indicated although the State remained the owner of enterprise, the basis of collecting government revenue has been changed from property right to political right, which ensured government's commitment of decentralization, decreased political intervention in SOE operations and further paved the way for implementing the Contracted Responsibility System (CRS).

CRS had been introduced in 1987 as the last step of economic reform in its first stage (1978 to 1992). This system implied an extensive transition away from centrally planned economy by strengthening and clarifying incentive and reward system for SOE managers and workers (Jefferson, 2010; Hassard *et al.*, 2010). More precisely, this approach represents a contractual relationship between government and enterprise, whereby enterprises were able to negotiate with authorities to prescribe a fixed percentage or amount of profits and tax for delivery. In other words, this system increased SOE managers' and workers' motivation because their personal income and bonus were bounded by the contract. Furthermore, accompanied by the increased retained profit and management autonomy, SOE managers would voluntarily take expanded economic responsibilities, which facilitated to create a more competitive, market-oriented and profit seeking type of enterprise.

While those progressive measures had been experimented during the first stage of economic reform, many measures were merely temporary and failed to generate any concrete changes and eventually had to be replaced by more sophisticated ones (Xu, 2011). However, it is fair to argue that the more profound significance of those attempts was that it contributed to a change in people's thinking, by which the idea and superiority of market had ever been appreciated in the Chinese context.

Another important feature of the first stage reform refers to it still did not get rid of the planned economic framework. From a political perspective, 'planned economy' was no longer advertised and had been replaced by 'coexistence of economic planning and market mechanism'. However, planning was still in a dominant position which represented a strong faith in public ownership. The persuasive example refers to the adoption of 'double-track price system'. It refers to the coexistence of two prices for the identical subject matter, in which one represented state-set price for the planned part of delivered production, and another one represented market price for the part of production sold by the enterprise. Furthermore, while this unique system had been especially adopted for the pricing of national strategic industrial materials and production, it profoundly determined and still influences the operation and management of construction enterprises (Chen, 1998; Sha, 2004).

Contracting project and the predecessor of International GS

SOE reform per se before 1992 was more like a tentative process, which had been prudently conducted in selective cases on the basis of trial and error. Therefore, as the core industry of national economy and the major objective of state planning, the structure of construction enterprises had not yet been substantially transformed. According to the company archives, the overseas projects of Construction GS had dramatically increased in scale and quantity (about 20 million US dollars of total revenue before 1988); in the meantime their operation had been expanded to 6 countries in Africa, which eventually led to the establishment of independent overseas department for African construction projects (the predecessor of International GS).

However, a compelling feature of its rapid development is although several small-scale construction projects had been taken over on the basis of responsible contracting between Construction GS per se and local clients, the majority of construction projects were conducted as aid projects through direct (China) governmental instructions. On the one hand, this particular development could be recognized as the enterprise benefiting from central authorities' constant foreign assistance policy towards improving international status and cooperation. On the other hand, it also implied the limited operational autonomy of Construction GS under central government. More precisely, when tracing back the development record of overseas operations, it was found that before 1992 Construction GS had not been approved by government to engage independently in overseas operations, including the import, export, and labour service. This suggests that although direct control had been gradually decentralized to provincial authorities, specific construction and related material, equipment and labour procurement and usage were still largely relied on central examination and approval. In this sense, even if the enterprise intends to develop a business project, it has to be done through cooperation with subordinates of the central ministries. For example, Construction GS maintained a long partnership with China National Overseas Engineering Corporation (or COVEC, former subordinate of Ministry of Foreign Trade and Economic Cooperation) for overseas operation, and their cooperation agreement was immediately terminated in 1992 when Construction GS obtained the right to be an independent overseas operation.

However, this does not mean that Construction GS was not influenced by the irresistible wave of reform. The idea of contracting had been firstly introduced and experimented in Construction GS in 1981. As one of the pilot contract-based aid projects in China, the entire economic responsibility prescribed in construction contracts was simply a fixed cost of construction per unit. However, it represents a dramatic transition of operation mode not only for Construction GS, but also for the entire industry. More precisely, while enterprises had been firstly identified as the entity taking full responsibility of construction project, greater autonomy had also meant that people felt empowered to make project plan, calculate construction quantity, manage and control process and quality of construction.

The decentralized operation mode had further been enhanced in 1987 when an official document was announced to promote 'project way construction' and to adopt 'tendering and bidding mechanism' for the entire industry. In other words, this policy identified 'one-off' as the production characteristic of construction industry, and therefore it mainly looked at the 'project' as the centre for construction management, whereby independent and advanced measures of resource allocation, financial and cost management, and labour distribution should be made to serve the project. In this sense, managerial autonomy had been further delegated to project level, by which the construction company was able to operate without being concerned with the fuzzy boundaries between enterprise and authorities. Furthermore, the increasing emphasis on project management eventually facilitated the establishment of the Construction Project Management Committee (CPMC) in 1992. Founded as the only non-profit, research-driven professional association in China, CPMC was responsible for establishing national standards and systems of project management and authenticating practitioner's qualification for domestic construction industry. Even now this institute is still playing a significant role in guiding the way of professionalization of project management in Chinese construction industry.

A favourable outcome of the reform is more visible in the overseas market because this meant that activities/products were seen to be consistent with current international regulations used in African countries. Because the changed mode contributed to increased efficiency, quality and profitability of construction project, Construction GS had been gradually accepted by local authorities with increased construction opportunities, which in turn, led to the establishment of two temporary work centres in Ghana and Zimbabwe. The development of local work centres greatly accumulated the company's practical experiences of project-based construction, and improving their communication with locals at different levels, and more importantly, the increased managerial autonomy somehow subtly transformed the managers' way of thinking, as one senior manager stated:

"*Thinking back to the days of 1980s, overseas operations really are eye-opening experience for us. We had the chance to get to the different way of managing and operating construction projects, whereby we understood that quota system is not the only way of making project budget, and for the first time felt the power of market.*" (LZ7)

The failure of economic reform – Contracted Responsibility System (CRS)

During the initial stage of SOE reform, although specific policies had frequently been enacted, modified and even terminated, strategically all of these attempts could be ascribed as attempts to improve the incentive mechanisms for SOE. In other words, early reformers emphasized the arbitrary profit distribution between government and enterprise as the major barrier for SOE reform, which was expected to be disentangled via more enterprise-friendly incentive and reward schemes. The rapid and widespread extension of the Contracted Responsibility System (CRS) in SOE could be such evidence. While the State Council officially affirmed CRS as the direction of SOE reform at the end of 1986, statistical documents showed about 95% of Chinese SOEs had adopted such program just in the preceding three years (Choe and Yin, 2000). Intentionally, the promotion of CRS was expected to foster the separation of ownership from management since a contractual commitment can help to clarify the different roles of government and enterprise in operation activities. However, practical outcomes indicated this program was failed to achieve the original targets. In contrast, this system aggravated the enterprise's reliance on governmental administration and interference (Choe and Yin, 2000; Firth *et al.*, 2006; Lin *et al.*, 1998; Hassard *et al.*, 2010). Furthermore, from the economic perspective the deteriorating profitability of SOE under CRS was clear, whereby the "*total loss of industrial SOEs increased from 5.4 billion Chinese yuan in 1986 to 83.1 billion yuan in 1997*" (Huang and Duncan, 1997, p.69). In this sense, the negative image of SOE losses even resulted in increased debate about the progress of economic reforms (Choe and Yin, 2000).

While there are various limitations of the CRS per se, 'soft penalty' has been greatly recognized as the fundamental defect (Choe and Yin, 2000; Lin *et al.*, 1998). 'Soft penalty' represents a prevalent phenomenon in CRS implementation whereby although both the bonus and penalty were simultaneously committed in managerial contracts, the latter was not strictly applied. In practice, penalty was quite likely to be softened at the end of the contract term, because enterprises always had the chance to negotiate with the government by declaring their difficulties and losses generated from external factors. However, due to the inevitable information asymmetry, government was unlikely to distinguish the various causes of enterprise loss, which indirectly provided speculative chances for an SOE to disguise its own operational losses as the consequences of policy change or market uncertainty. In most cases, the State has to take full responsibility to cover all the SOE losses, which indicated that the constraint part of contract was invalid and managerial discretion could be overplayed to override property rights. This situation was worsened since the contract was negotiated on firm-by-firm basis, which means government did not set benchmarks for contract agreement, and therefore the contractual content and related favourable conditions largely depended on the SOE's negotiation abilities.

In this sense, the incentive function of CRS was greatly overlooked because administrative capacities in terms of relationship maintenance, communication and connection with government had always been put in a primary position, thereby distracting managers' plans to improve profitability and management. Therefore, it is fair to state that the use of CRS to a certain extent further blurred the boundary between government and enterprise, which largely deviated from its original intention of removing the political feature from SOE. The more serious problem refers to managers deliberately using CRS as the manipulative tool for securing their personal interests. Choe and Yin (2000) specifically studied the optimal managerial decision of SOE managers under CRS. They argued that because managers as the insiders who have the best knowledge of enterprise operation, they would consider certain trade-off between reward and penalty during the decision making process. More precisely, if managers consider their personal compensation would not greatly affected by the contracted penalty, decisions are likely to be made to ensure or increase their own interests even such decisions would harm profitability or result in SOE losses. This kind of misbehaviour not only led to dramatic losses on SOE and national assets, it also resulted in a vicious cycle of political burden because government had to directly intervene into SOE management and operation in order to supervise and prevent managerial fraud and insider control (Lin *et al.*, 1998).

The implementation of CRS had been gradually called off in early 1990s due to its disappointed outcomes for promoting economic reform. However, it would be premature to state that negative effects reflected by this program have been completely eliminated. In contrast the agency problems in terms of moral hazard, managerial slack and on-job consumption are still involved in the debate of SOE reform. Although the failure of CRS somehow amplified those potential risks, it indeed reflects the underlying political dilemma of economic reform orientation in China. While those agency problems could be mitigated through a complete transfer of property rights from state hands, it hardly is the case in China since the baseline for China’s economic reform remains public ownership, of which its significance is seen to be far beyond economic system (Choe and Yin, 2000). In this sense, the failure of CRS is not unexpected because this system presumed that managers are dedicated and will put public interest in the first place and only pursue their own interests after the contracted target is accomplished. While this kind of quasi-planning presupposition completely ignored the assumption of the ‘economic man’ (Chen, 2009), it was greatly challenged when managers were empowered to choose between their conflicting personal and enterprise interests.

The insistence on socialist public ownership also suggested that political administration and business operation is unlikely to be separated completely. As the derivative of government authority, SOE is always protected by the State because normal operation of SOE is closely associated with the livelihood of an enormous number of employees. Because social stability is always to be considered as a key political objective, the cost is that the State has to ensure the operation of SOEs regardless of the efficiency.

From an enterprise perspective the inextricable social function somehow had been identified as a privilege or a shelter, which not only aggravated managers' reluctance to SOE reform, but also enhanced the stereotype of SOE as a 'safe heaven' for employees. A notable implication is the prevalence of egalitarianism within SOEs. Due to its intrinsic nature, the administrative level of an SOE potentially sought a fair treatment from government, by which it is taken-for-granted that SOEs at same level should receive identical contract terms regardless their performance. Therefore, 'efficiency' and 'profitability' were nothing but nominal slogans as long as over-favourable treatments were able to sustain operations.

This kind of 'claiming for equality' further profoundly impacted upon people's ideas within SOEs. While secure wages and welfare was as a part of the enterprise's strengths, the only discriminant for individual treatment is one's position within an SOE. Therefore, different treatment within the same rank were always recognized as 'unconventional and unfair' and often led to dissatisfaction and complaints. This phenomenon was even manifested when a personnel allocation was based on administrative measures, by which the individual's role in enterprise was closely associated with his/her administrative position. In this sense, government's over-protection and relatively obscure boundary between enterprise and administration exacerbated the abnormal demand for equality, whereby 'personal appeal' was overwhelmed by the broader 'collective identity'. More precisely, egalitarianism was formed as taken-for-granted norm where work capacities and self-efforts were less important than role maintenance skills for individual promotion and rewards in SOE. Therefore, individuals in SOE would make exclusive efforts to echo with the collective needs and paid extra attention to claim their group identity. Although CRS had already been terminated about 20 years, the idea of egalitarianism is still influencing the overall reform of SOE and individuals' behaviour. Besides its negative role in enterprise management and operation, as an imprinted norm, it indulged people to live in the unreal image of security and equity, which constrained individual's dynamism, innovation and initiative in extant and competitive business market (O'Connor, Chow and Wu, 2004).

5.2.2.3 Intensive economic reform, SOE restructuring and the establishment of International GS

Economic reform after 1992

As the main experimental field for economic reforms, problems in the initial SOE reform implied that a more comprehensive measurement system was imperative to complement the excessive use of incentive mechanisms in future. However, similar to the other previous economic transitions which were exclusively triggered by policy changes, concrete measures for further SOE reform were not implemented until 1992 when the second stage of economic reform began. As a milestone of economic reform, the 'Third Plenary Session of the 14th Central Committee of the CCP' (1993) officially decided that the 'Socialist Market Economic' system was the ultimate objective of China's economic reform, in which the market has eventually been acknowledged as the fundamental player for resource distribution under governmental macro-control (Chen, 2009). Although public ownership was still announced as the main driver of economic system, the ascertained significance of market has been understood as the positive signal for developing diversified economic systems, by which the theories and concepts within capitalist economies in terms of corporatization, privatization and shareholding has been gradually introduced into Chinese market. In other words, the disappearance of 'planned economy' or 'economic planning' in official documents after 1993 indeed reflected a pragmatic political orientation for economic development, which in turn implied a profound shift in ideological perspective.

The most persuasive example refers to President Deng's 'South Tour Speech' in which he analogized the relationship between market and planned economy as "*black cat, white cat, whichever catches mice is a good cat*" (Whyte, 1993, p.523). Borrowed as a Chinese proverb, Deng's 'cat talk' suggested economic systems should be evaluated purely as means for resource distribution, and correspondingly their political inclinations were not likely to be a barrier for implementation. Furthermore, this political orientation actually represented a policy focus which has been transferred away from capitalism-socialism ideological struggle; it relieved people's worries and anxieties about the possible political fluctuations in economic reform. In this sense, pragmatism has ever been established not only as the key word for economic reform and other policy making, which has also been gradually evoked as a favourable working manner for many ordinary Chinese people.

The second round of SOE reform had been conducted based on the positive political conditions. By learning from previous failures of incentive-driven approaches, specific measures were adjusted to focus on SOE restructuring in which the main theme of separation ownership and management was still insisted upon. Admittedly, the government has realized it is not feasible to control SOEs of all industries and it is also adverse to SOE long-run operations by protecting them away from market competition. In this sense a great number of SOEs have been mandated to be divorced from state control through restructuring. The process of SOE restructuring was mainly supported by two policies which were ‘worker layoff’ and ‘corporatization’ (Xu, 2011). Enterprises were allowed to reduce their redundant workers by paying one-off compensation for their service. While this approach facilitated the following corporatization process, politically it also proclaimed SOEs’ diminished administrative function as they will not be required to guarantee employment. Furthermore, corporatization is the program to introduce western corporate governance in terms of boards of directors and shareholder into selected pilot SOEs, by which government interference and state reliance were expected to be reduced to recover the ‘entrepreneurial nature’ of enterprises (Hassard *et al.*, 2010).

This program has further been accelerated when the national ‘open-up’ policy was proposed. As the expression of determination for developing market economy, this policy was proposed to gradually remove barriers for international trading and cooperation, in which the quest for entry into World Trade Organization (WTO) has been highlighted as the primary objective of economic reform. In this sense, ‘Modern Enterprise Management System’ (MEMS) has been proposed to promote scientific management mechanisms, improve technical transformation and implement various means for property right and assets re-organization. From the perspective of SOE restructuring, and since complete privatization was ruled out, shareholding has been intensively used as the substitutive but effective means for achieving goals of MEMS. Through transferring shares to insider managers, employees and local residents, a number of SOE had be transformed into shareholding companies by which they were automatically empowered to take full responsibilities for profit or loss situations.

The implementation of MEMS had dramatically changed the structure of SOE, as statistical record shows by the end of 2008 the proportion of SOE was just 2.3% among total 417,000 industrial enterprises in China, of which about half of those SOEs had been transformed to shareholding enterprises (Jefferson, 2010). However, with the introduction of MEMS, what is noticed is the changed mode of state control to a more implicit but centralized one. More precisely, while 'increasing management autonomy' has always been declared as the centre of SOE reform, the whole reform process was based on the policy of 'grasping the big and ignoring the small', which indicated differentiated treatments for SOEs. On the one hand, SOE restructuring facilitated privatization and liberalization to be implemented in general industries and small-medium SOEs. On the other hand, the State regained its central control of large scale and core industrial SOEs through state shareholding or participating in the enterprises' board of directors. The different treatments and strategies indicated that although government had realized the imperative of marketization, as the foundation of political system, it is impossible to remove socialist public ownership. In this sense, differentiated treatment was not only used as a trade-off to balance economic and political needs, but also re-emphasized the dominant position of public ownership in economic development.

This kind of disguised centralization has been further underpinned by the establishment of National Commission for Development and Reform (NCDR) and State-owned Assets Supervision and Administration Commission (SASAC). Founded as the successor of SPC in 2006, the main function of NCDR is to continually issue five-year economic plans for guiding national economic development. However, since 'plan' had been replaced by 'prospects' in official language, it is fair to state that the detailed economic plan had been adapted to current reform process, by which the formulation of macroeconomic strategy has been emphasized to replace specific political interferences, the administrative examination and the approval procedures within micro economic activities. However, it is important that despite progressive marketization and great impacts by western notions, nowadays Chinese government officials still believe in the idea of planning as an indispensable part of China's economy. A persuasive example refers to the content of National 12th Five-Year prospect (2011-2015), in which the scale of planning has even been extended to cover 16 sectors of national economy (Appendix D). Although the plan is no longer used as a mandate, it indeed conveys governmental intentions and its policy orientation for economic activities. From a manager's view, a full knowledge of the plan would often facilitate enterprise's performance, since managers would be prone to comply with policies for receiving greater benefits and support from government. In this sense, the State is still implicitly controlling national economy via softened measures. Therefore, NCDR has been greatly criticized as the remnant of planned economy as Chow (2011) argued against that the change in name and the omission of 'planning' are merely a posture for the outside world.

Considering the national asset loss and insider manipulation that resulted from the exclusive use of incentive mechanisms, SASAC was founded in 2003 as an oversight institution to complement SOE reform. The main objectives of SASAC refer to monitoring the state investment to SOEs on behalf of central government, approving the sale, acquisition and merger of state-owned assets, and guiding and promoting SOE restructuring and management. In other words, SASAC acts as the independent agency of central government separating economic responsibilities from government's social and public administrative functions, by which a clearer boundary between property right and management in SOEs is expected to be achieved as the State purely plays as investor or sponsor in SOE operation. However, due to the dominant state shareholding in most of SOEs which often controls enterprise's voting right, it implied that the following managerial decision-making is still indirectly restrained by the State and its investors (Firth *et al.*, 2006). In practice, constraints were also revealed in SASAC's instructional proposals for setting benchmarks for SOE performance evaluation, enacting personnel appointment and employment rules and examining enterprise's investment proposal. Therefore, although the State no longer controls and participates in the enterprise's business operation, the establishment of SASAC somehow tactically preserves central control of SOEs.

The restructuring progress of Construction GS

The simultaneous market-based reform progress and increased political centralization has often been argued as a key of Chinese government's hesitation towards economic reform, which resulted in a more complex and unique institutional environment for current SOE operation and management. Firstly, managers appreciated the imperative of adopting sophisticated management modes and notions in the competitive market; Secondly, they were somehow reluctant to change not only because of the political constraints, but also the privileges and protection generated from centralization. For the specific case company, this kind of dilemma has been clearly projected not only in its organizational structures, but also reflected by their strategy making and following managerial rules and routines.

In order to implement government policies about SOE reform, the reform of Construction GS started in 1994 by turning over its property rights from central to provincial government. While Construction GS was removed from the list of Ministry for Engineering and Construction, it indicated the end of its central administrative function, which facilitated the following corporatization to be approved by local government. Therefore, by acquiring other provincial small-medium SOEs in 1995, Construction GS had been formally established as a group corporation which operates and manages state assets under the authority of local government. However, the initial reform resulted in a loose and overstaffed organizational structure. Construction GS had over 30 subordinate units owning more than 30,000 staff and workers at that time, in which many of its subordinates' roles overlapped in functions as an institutional 'residue' from prior reorganization procedures. Thus, based on government's policy of 'promoting shareholding system in SOE', further reform had been conducted in early 2000 which mainly focused on the restructuring of subsidiary companies. On the one hand, archival records showed a dramatic reduction in the number of subsidiary since more than half of them were divorced from state control through privatization and merger. Additionally, the company's societal and public burden had been further relieved by turning over the property rights of about 10 technical colleges and training schools to local government. On the other hand, the state control was still manifested despite shareholding system had been implemented for all of the remaining subsidiaries. More precisely, 90% of total subsidiaries were still indirectly controlled by the government because state share represented either exclusive or dominant proportions among those subsidiaries. In this sense, Construction GS's reform status was largely consistent with the general SOE restructuring process in China.

The strategic change at Construction GS

Being identified as the 'modern mechanism' to solve the chronic ambiguity of property and management rights, Board of Directors was introduced in Construction GS in 2010. It seems that the influence of state control on the company's managerial and operational practices have been further diminished via the establishment of board of directors. As the chairman of GSJN recalled:
"…*Back to 2010, board of directors was not a new term, but for us, for this historical SOE it was really shocking news. However, although we had no experience about the mechanism, we know it is the way for our future development simply because we have more rights to make decision, plan and strategy…*" (JN1)

In the following two years Construction GS proposed an application to local government by which they registered company's name as a Holding Group Corporation. The change of name indicated a complete new business strategy, as the chairman of Construction GS stated on company's 'Ninth Five-year Summary Conference' in 2012:

"…*it represents resource reallocation by which the construction business will be complemented by diversified operations in terms of real estate, technical consultancy, project design, engineering manufacture and new material development … and we will also expand overseas operation as one of the three major sectors of group business and source of profit*".

However, although the strategies of 'diversification' and 'overseas expansion' were independently based on the agreed decision from board of directors, it is unlikely to assert that such decision-making was purely motivated by market activities. In contrast, the company's strategy formulation were still greatly influenced by political reasoning since managers were likely to take advantage from government by according with political instructions, and in turn affecting the design and use of management practices.

One piece of evidence refers to the arrangement of Construction GS's Five-year Summary Conference. As a routine way to evaluate its periodical performance as well as make plans for future operation, a notable feature is the conference time has been intentionally set one year after the proposition of 'National five-year prospect'. Therefore, it is highly possible that the company would able to adjust its strategy and planning immediately, by which its operation is more likely to be consistent with political guidance. Based on the analysis of the '*Special Issue of Twelfth National Five-year Plan (2011-2015) for Construction Industry*' (hereinafter referred to '12th Plan'), it showed to large extend Construction GS's strategic changes were prone to macro instructions, which directly resulted in the establishment of International GS, as well as its current organizational structure (Figure 4).

The 12th Plan continuously emphasized the key position of the construction industry, by which the estimated goal of 15% annual increase of total industrial output value has been made for next five years. In order to achieve this economic objective, the main themes of 12th Plan referred to transformation of development patterns and adjustment of industrial structure, which were mainly expected to be achieved through a greater expansion of construction SOEs in global market. In other words, to a large extent the 12th Plan requested the overseas operation of construction SOEs, which was not only reflected in rigid targets in terms of 20% annual increase of overseas contracting turnover, but was also showed in terms of favourable policies about multi-channel financing and governmental funding, as well as looser constraints in foreign investment, overseas joint venture and corporation set-up. Diversified operation has then been encouraged as the means for adjusting industrial structure because the extended overseas market would facilitate the export of equipment and materials, and also increase opportunities for international trade, consultation and design.

The 12th Plan also prescribed certain strict industrial rules which compelled companies to make changes to its strategy. Firstly, the proposal of 'improving the use of energy-conservation and emission-reduction technologies and materials in construction projects' stipulated the proportion of specified materials used in construction project. It even applied a fixed 10% reduction rate of energy consumption for the entire industry in next 5 years. Secondly, the proposal of 'enhancing training and qualification examination for builder and workers' to a certain extent raised the threshold of labour use, since the rule was to invite 90% of workers needed to be certified before employment. These policies were made to improve industrial development in long term. However, due to the insufficient material supply and immature training system at present, it is unlikely the immediate demands for new materials and qualified labours are able to be satisfied, which in turn inevitably resulted in the increase of costs and expenses and forced company to seek for alternative markets to maintain profitability targets. As the general director of GSLZ stated:

"*domestic building market is not quite optimistic simply because of the rising costs in materials and labour forces, under this circumstances we can only have about 2% average profit margin at best … but I have to say, for good or worse, it is the main reason why the international operation becomes more important in these years.*" (LZ1)

More than that, this kind of macro adjustments indirectly led to the company's strategy of diversification. As one director of GSLZ suggested:

"*…we have clearly understood that domestic building market is complex and continually changed with the political adjustments. As we can't forecast the political uncertainties, it is not wise for us to solely rely on construction works, more precisely we have to expand our operation scales in order to spread the possible risks, and that's the reason for us to change the name to 'holding group*'…" (LZ9)

The establishment of International GS

International GS was established in 2011 as the significant performer of the new strategies of diversification and overseas operation. The strategic needs had been straightforwardly projected in the establishment of three parallel domestic subsidiaries (GSMT, GSLS and GSEE) of International GS (Figure 4). Firstly, in an attempt to apply the diversified operation, these subsidiaries were in charge of construction projects' material processing (GSMT), labour training (GSLS) and engineering equipment manufacturing (GSEE) respectively, by which the company expanded the operational scales from construction works to its upstream industries. Secondly, while all of these subsidiaries were registered as independent limited corporations having no business practices in domestic market, they also play as the support and service centres for overseas operation, in which overseas projects' material supply, labour service and equipment allocation are greatly relied upon good coordination and communication with these domestic corporations.

The strategy of 'diversification' has even manifested in local subsidiaries. As showed in GSJN's organizational structure, this company has 6 subsidiaries in Ghana which not only include construction related industries (CSC for building construction projects, GSID for equipment leasing and real estate development, GSM for concrete processing and brick manufacturing), but they also involved in other industries in terms of pharmaceutical manufacturing (SP), commodity trading (GSIT) and hotel management and travel agency (GSIHM). However, since the company was traditionally rooted in construction industry, it is necessary to understand the rationalities of its horizontal diversification. The chairman of GSJN suggested that to certain extent their extensive diversification is a means for long term operation, as he stated:

"*…although we are not specialists in those industries (pharmacy, trading and hotel management), we still have advantages and experiences because local market is quite under-developed compared to China. Therefore, considering long-run development, those companies are even more promising than construction because as long as we provide scarce services to local market, we are getting more easily to be accepted by local people…*" (JN1)

However, he also admitted this kind of strategic making was not completely a spontaneous action as he commented that:

"*…no matter what we do in Ghana, the profitability target assigned by domestic headquarters (Construction GS) is always the priority. We have to seek for any possible opportunities in local to achieve this target, which is especially important in certain periods when construction projects are limited*".

This kind of dual rationalities indeed reflected that GSJN was restrained by Construction GS's overall strategic deployment. More precisely, based on the speech of the chairman of

Construction GS on the 'Ninth Five-year Summary Conference' in 2012, it is found that overseas subsidiaries were asked to fulfil the annual turnover objective of 500 million US dollars, of which the diversified operation was expected to account for over 40% of total turnover.

In this sense, it is fair to state that the specific role positioning of International GS resulted in company's dilemma in claiming its independence as mentioned in the very beginning of this section. In other words, although International GS has great autonomy of operation in overseas markets and which have even made great efforts to reinforce its independent image, the state control and political influences are still manifested simply because the operational and managerial autonomy largely relied upon the pre-set political-based strategies. From a macro perspective, this specific work circumstance, as many managers describe as 'limited autonomy', actually reflect the hesitation of the whole SOE reform progress, in which the State is still reluctant to decentralize its control to enterprises.

For International GS, besides the abovementioned 'nominal autonomy' in operation, another persuasive example refers to its disordered management structure. More precisely, the organizational structure of International GS clearly showed that GSLZ as the head office is supposed to direct and manage both the domestic and overseas subsidiaries by formulating managerial rules and evaluating performance. However, the reality is that both the general managers of GSLZ and overseas subsidiaries are the members of board of Construction GS, which entitle them to take the managerial positions in Construction GS's management level. More than that, those top managers are also endowed with administrative positions by maintaining their membership of Construction GS's CCP Committee. While the main functions of the committee are monitoring the safety of national asset investment and delivering central political instructions, it showed Construction GS's intention to maintain centralized control, which indirectly influenced GSLZ's managerial independency.

The director of engineering department in GSLZ described their abnormal management hierarchy as the mode of 'two sets of brand, one set of personnel' and stated that:

"…*while International GS remains its independent identity as a transnational contractor, it is the representative of Construction GS in international market which receives support and supervision from the higher level…*" (LZ7)

Although he further commented that this managerial mode is "*a temporary approach since there is a shortage of management professionals at the very initial stage*", other managers also realized negative implications to company's management and operation in practice, as one director of GSJN argued that:

"…*we feel like working for nothing but an intermediary delivering guidance from upper level (Construction GS) to subordinates (overseas subsidiaries), in this sense, sometimes we felt restricted and need to be very careful when designing and adopting management practices because we are not clear about whose benefit we stand fo*r." (LZ10)

However, from the view of the general manager of GSLZ, it is a normal structural transition which happened in most of Chinese SOEs. Therefore he stated:

"…*we have to make this sort of trade-off to balance the demands of the State and company because under the current institutional environment it is impossible for us to be divorced from state control…*" (LZ1)

Moreover, from an operational perspective a favourable attitude towards the dual roles of International GS is connoted as he said:

"…*although independence is the long-run objective, we still largely rely on the political and financial support from the government, which is of great importance for our survival in African markets*".

5.2.3 Implications from the development courses

The previous section explicitly demonstrated China's economic reform from the very beginning to its current status. A throughout review and analysis is necessary for the specific study particularly because this prolonged reform articulated the complex process of SOE development, which directly resulted in the establishment of the specific case company - International GS. However, a more significant reason is the reform progress, as the most profound one in China's current history, which not only dramatically changed China's economic system, but also exerted a great impact on societal norms and also imprinted in people's ideas and behaviours. More precisely, based on the historical review, it is fair to state that the emergence and development of the case company, and its current organizational structure and strategy making are the immediate reflections of top-down policy changes, in which specific examples include the recursive centralization and decentralization controls (mandatory plan before 1978 - CRS in 1990s - instructional plan at present), the transform from organic units (Cheng Jian Zhi) to project management, and the restructured SOE form from administrative organizations to shareholding corporations.

More importantly, because the whole process revealed an evolutionary tendency, in which some reform-driven factors were even developed to transcend beyond time restrictions and their original political meanings. In other words, although some specific means and mechanisms had been replaced or abolished through the reform process, it was found that factors originated from the past stages of reform are still remained and evolved into norms to reshape organizational and individuals' behaviours. Some typical examples may refer to strong sense of national identity, praise to military management, ideas of egalitarianism, pragmatism and favourable inclination towards governmental policies. Therefore, from a theoretical perspective it is possible to argue that although the company promptly make rules to cater for policy needs, its routines are always lagging behind the rule setting because of the processual nature of reform as an institutional change. In this sense, the development course of International GS to certain extent corroborates the neo-institutional idea of dichotomy between evolutionary and revolutionary institutionalization, which greatly facilitates the following analysis of management control system in International GS. By contextualizing the specific case company into the broader frame, it is likely that institutional insights are able to be obtained to explain the causes, interactions and implications of the design and use of management control systems in this company.

Chapter 6: Management Control Systems in International GS

6.1 Background of MCS design

The ninth 'Five-year Summary Conference' of the company held in 2012 proposed diversification and overseas expansion as fundamental strategies for future development, whereby the significance of International GS was greatly amplified. In order to implement such strategies and achieve planned objectives, 'Improving management systems' has been proposed by International GS as the most imperative solution for the upcoming five year plan. This specific proposition can be understood as a response to national SOE reform because establishing a 'modern enterprise management system' (MEMS) was always a key theme in current governmental reforms. Furthermore, it appears that managers had to change their current management style to survive in overseas markets. As the CFO of GSLZ stated:

"*…construction industry is well-known to be a low profitability one; a 2% profit margin for single project is the average level not only for us, but also for the entire country. Ten years ago we could achieve a higher profit in overseas projects because of the cheap materials and labour forces from China, but the price differences are disappearing and nowadays profit is relying on efficient cost control, reduced internal frictions and advanced project management. Therefore we have to make changes in management to keep up with the market pace…*" (LZ5)

In fact, while phrases such as 'disappeared cost advantages' and 'management improvement' have always been simultaneously mentioned by other interviewees, it seems managers have appreciated the pressures from market changes, whereby the necessity for improving the management system was not merely a political guidance, but a consensus among them which was borne out of pragmatism.

In practice, the management improvement in International GS was greatly based on managerial rule setting and concomitant compliance, in which a standardized management control style was manifested. More precisely, the general manager of GSLZ specifically embodied this argument in the Ninth Conference (2012) as he stated:

"…*the central approach for improving management system is to formulate a set of normative and rigorous rules and regulations to instruct and constrain managers. Ultimately, we expect that those rules are able to be transformed as organizational systems and institutions in order to prevent the old way of 'rule by man'. In other words, if we are an army, the managerial rules would be our discipline, so it is clear that no individual power is bigger than discipline.*"

Therefore, on the one hand the company showed its expectation to pursue 'rule by institutions' as a basis of modern management system, by which managerial rules were identified as the ultimate and only means to implement such idea in practice. On the other hand, because of the pervasive idea of military management, the standardized managerial style was somewhat overemphasized, in which a strict compliance with rules has been imposed as the 'panacea' in dealing with management problem regardless of subsidiaries' contextual differences. More precisely, it has been found that managers from GSJN have various concerns to the excessive demand for standards and regulations in terms of the constraints to innovate, conflicts with local conditions and the tensions in workplace. In this sense, while all of these concerns will be specified later, the main point here is it is necessary to identify International GS's rule setting as the start point of analysis, since it provides a benchmark to complement the whole picture of MCS in the case company.

As the concrete form of the managerial rule for overseas operation, a compilation of managerial methods had been enacted by GSLZ (head office of International GS). A 400-page 'managerial manual' provides detailed rules and methods for almost every aspect of overseas operation, which are required to be used and complied with by subsidiaries as the standard for management practice. This compilation is constituted by 26 subsections which can be roughly classified into six aspects including clarifications of job responsibility for managerial positions, project contracting and construction methods, material procurement, financial management, personnel management and salary management.

From a systematic perspective this compilation indeed implied four main themes of management control, which have been purposefully emphasized as the essential objectives for management improvement in company's Ninth Conference. Specifically, these four themes are budget control, cost control, performance measurement and localized control. Based on this classification, the following analysis would be divided into four sections to demonstrate and analyse each control system respectively. In order to do so, on the one hand the analysis of MCSs use will be largely based on managers' interviews from GSJN since this selected subsidiary is the main body which actually conduct operation and management, on the other hand interviewees from GSLZ are still necessarily to be included into the analysis since their perceptions reflect, to a large extent, the initial ideas of MCS design. Therefore, by comparing managers' thoughts from different angles would help one develop a more comprehensive understanding of the interactions and variations between rules and routines.

6.2 Budget control

6.2.1 Budget at firm level

A premature conclusion that International GS does not have any budget control could be easily made through the review of the company's management rules. From a cursory survey of its managerial manual, a surprising finding is there was no detailed content about the company's budget system, the approaches of budget control or who is responsible for making budgets, and even the word 'budget' has been merely mentioned in this 400-page compilation. The overlooking of the budget has also been found as a common situation among managers both in GSLZ and GSJN, in which most of the non-financial managers either showed no interest about the company's budget system, or indicated that budget is not part of their job responsibilities. In this sense, even if the company have budget control, it would appear to be a closed system and only a few managers participated in it. In fact, there were only two managers within the accounting department who gave more explicit explanations about company's budget system (both are directors of the accounting department in GSLZ and GSJN, respectively).

However, although the two managers confirmed the existence of budget in International GS, both of them showed indifference to its control function in workplace. The CFO of GSJN described that they did not make any systematic corporate budgets to plan and supervise their local operation simply because it is unnecessary. As he stated:

"*…our annual financial target was assigned by the head office, therefore the only planning job for us is breaking the index down and allocate to different construction projects and subordinate companies.*" (JN5)

He further commented that:

"*…however, even the detailed financial plans were made on the basis of higher level's demand because the official document from GSLZ assigned standardized and identical weight ratios of economic target for each overseas subsidiary. For example, about 60% of this year's total turnover was asked to be generated from construction projects, which would originate from existing construction projects (40%), new added projects (35%), and newly signed contracts (25%). In this sense there is no room and no need for us to make a revenue budget*".

From a bottom-up perspective, the manager's argument to certain extent corroborated the deduction that centralization control always weakens the financial independence of overseas operations.

The CFO of GSLZ admitted that preparing the corporate budget was part of his job. However, he also emphasized that this budget has a different meaning from providing a forecast or a boundary, as he described that:

"*…budget making is a formal but nominal process, by which it was mainly used as a report to Construction GS for evaluating performance of overseas subsidiaries…"* (LZ5)

More precisely, Construction GS, as the proxy of the provincial government, relied on national assets and funds to invest in overseas operations. Correspondingly, overseas subsidiaries were requested to pay management fees as a return on investment. On the one hand, while the fees were largely standardized as a fixed proportion of company's received investment, it is fair to state even the head office of International GS had no motivation to use its own revenue budget for control purposes because the amount of received investment has been already worked out in the budget. On the other hand, the fees consisted of two parts; namely, a weight ratio being 2% of annual turnover and 6% of pre-set investment amount. This clearly showed the latter is more associated with the evaluation of company's performance. Therefore, there does not seen to be any incentive to use the budget for controlling resources.

However, none of the interviewees gave a positive answer to address the lack of budget control; alternatively, they argued that there would be other indirect approaches to deal with the possible problems of efficiency or profitability. Instead of discussing the constraining functions of the budget, the director of GSLZ subtly made a detour to talk about how they are maintaining a long-run and cooperative relationship with domestic banks, financial institutions and local government. Whilst this seems to be irrelevant, it indeed connoted a 'soft budget constraint' as the cause for company's reluctance to build its own budget control. More precisely, 'soft budget constraint', as a unique feature of socialist economy (Kornai, 1986), implies that firms were always given external assistance or expecting to receive such assistance when its own expenditure exceeded earnings. This argument had already been corroborated in the Chinese context as the 'soft penalty' arising from the CRS implementation; however, accompanied by the progressive economic reform, this kind of straightforward state protection has somehow been played more implicitly, whereby privileged financial channels would be one way in which SOEs receive lower interest rate or loosened terms of credit from the banks. Moreover, since central government largely controls domestic financial institutions, it is even more likely that SOEs are able to obtain such privileges via administrative approaches. In the case of International GS, it showed not only managerial intentions but a company's strategy to benefit from these privileges. During the company's Ninth Conference (2012), besides 'management system improvement', 'expanding financing channels and favourable policies via collaboration with local government' was also proposed as one of the key items for future development. In this sense, irrespective as to whether the company is willing to be responsible for its own efficiency and profitability, the co-existed state control and protection may in fact maintain a reluctance to design appropriate corporate budget controls.

6.2.2 Project budget

Although the budget merely played a symbolic role in International GS's performance at the firm level, by no means did it completely disappear from its operations. Indeed, for each construction project, the budget has always been identified as the core component and the premise for project management. One of the most noticeable features of the construction industry is that almost every project contract is agreed and signed via a bidding process. Briefly speaking, the bidding process started from a bidding document offered by the project client to provide specifications and requirements for a project. Based on those requirements, competing companies will then provide their own bidding documents, or namely statement of work (SOW) which will generally include work activities, deliverables, pricing and timeline. The project client can then choose the most appropriate company as the contractor by comparing the submissions. Therefore, it is clear that the extent to which the SOW meets project client's expectation directly results in a successful bid, which in turn determines the operation and budget of a construction company.

Moreover, within the various documents of a SOW, it is acknowledged that 'bill of quantities' plays the most significant role. As illustrated by the deputy manager of GSLZ that:

"*…bill of quantities is all about pricing, such as the price of material, labour, equipment and so on. Put simply, this document tells the client how much money we need to accomplish the project…*" (LZ3)

He then explained why it is important as he said:

"*…bill of quantities represents the best we can show to the client because pricing is visual. Client may also be concerned about the company's management, fame or other factors but all of these can't be perceived until we conduct the project. Therefore, judgments are greatly made on the numbers, and in most cases, the cheapest one wins.*"

In this sense, it is likely to state making bill of quantities is equivalent to making project budgets. In other words, while price and usage benchmarks for material, labour and equipment would be established on an acceptable level to satisfy both employer's demand for low price and company's demand for profitability, it indeed represents the control feature of the budget.

However, an unexpected finding is that despite the fact that the project budget is so crucial for a construction company like International GS, there were very few detailed rules and guidance about how to make a project budget. The director of GSEE attributes this situation to the industrial characteristics by stating:

"*…in China, construction has been classified into a national strategic industry, which means government gives prices for resources involved in work activities. Therefore, we only need to calculate the quantity of construction for the final price of a project…*" (LZ11).

As part of the 'dual-track price system' implemented in the construction industry, construction enterprises were requested by the government to strictly comply with engineering 'norm' in terms of calculating construction quantities and making bidding documents. The 'norm' refers to a unified and centrally controlled pricing and measurement system, where not only direct expenses in terms of unit price of material, equipment and labour usage were fixed, but the detailed technical procedure of construction was also specified (see Appendix E for example). Since the bill of quantities was exclusively calculated on the basis of norms, it failed to reflect the real market price.

From the perspective of the overseas operation, the lack of project budget control distorted GSJN's competitiveness because fixed 'norms' are not applicable in the African market. More precisely, when the calculation was simplified in terms of 'bill of quantities = construction quantities × unit price', Chinese and Ghanaian approaches led to different calculations. Since the unit price has been circumscribed by 'norms' and the company per se is the main body for calculating construction quantities in China, the amount of bill of quantities is largely dependent on the accuracy of calculating the total quantities. However, under international bidding procedures, in Ghana it is the third party, rather than the company, which calculates the construction quantities (and circulated to all bidders). Therefore, the variations in the bill of quantities were generated from the prices offered by competing companies, which were influenced by the company's understanding of market. Furthermore, since indirect expenses are also included into the bill of quantities under international standards, the company's capacity in management and budget control can directly evaluated before starting construction.

However, despite the manifested disadvantages of the Chinese system, the 'engineering norm' has still been preserved in overseas operations due to various factors. National economic differences would be the first reason, as the general manager of GSJN stated:

"…*Ghana is a less-developed country which does not have a significant manufacturing base. When we ship material from China and hire Chinese workers, we still have a price advantage compared to western companies. In this case, it is not imperative to focuses on project budgets…*" (JN2)

The second reason may refer to the political privilege. While open bidding is the dominant means for project contracting, managers indicated that negotiated and invitational bidding also played an important role in Ghana. The latter is usually used in national projects initiated by local government. Under this mode, the local government invites companies to participate in construction, and construction quantities and price are negotiated between government and company rather than open to public bidding. Managers argued this kind of project has become their preference in future operations, as the deputy manager proposed:

"*…competition in general business project is very intensive… so currently, the prior focus should be on governmental cooperative project, since negotiation is flexible and so we can strive for more favourable conditions*" (JN3)

He further added that:

"…*because of the increasing inter-government cooperation between China and Ghana, actually we have some intrinsic advantages to obtain such projects. Because local officials may either see us as* *the representative of Chinese government, or at least they feel secured to give us the project as they believe we are backed by government.*"

While managers gave some practical explanations about company's lack of concern for a budget system, they all realized such reasons are indeed adverse to the company's overseas development. The most manifested issue is the increase in manufacturing and labour costs in China have gradually eroded their cost advantage. Another problem refers to a loss of reputation generated by criticism from peer companies about the company's lack of transparency, as well as local people's dissatisfactions. For example, the deputy manager of GSJN stated:

"*Some peer companies blame us for using this bidding mode (invitational bidding) since they always associated it with manipulation, illegal or even bribery, despite none of these are true since our cooperation with local government is endorsed by the Chinese government. Anyway, their accusations have resulted in the damage of our reputation, especially when these were reported by local media*." (JN6)

However, even if a budget was to be implemented, it is unlikely that the systematic issues would diminish since the norm-based pricing mechanism has already been routinized and appreciated as the default mode of construction operations. The shift in managers' idea is lagging behind environmental and market change, as the chief engineer of GSJN stated:

"*Although we always expect to embrace the market, to make our own project budget, and to replace national norms by enterprise-level ones, it is quite hard in the real work simply because people are reluctant to change… actually our managers are get used to the old mode, it is an easier way to make project budget because all you need to do is calculating based on given numbers, and they had done this way for long time.*" (JN4)

Furthermore, it is also noticeable that managers from GSJN's accounting department made some alternative comments about the lagging budget system.

"…*I have to say the most realistic problem is we are shorthanded. As you can see, including me the entire accounting department has only 5 people and 2 of the 5 are cashiers and limited in accounting knowledge. In the meantime, we have 10 more projects and 5 sub-companies to deal with. I really know we need budget control but it is just too much work for us.*" (JN26)

6.3 Cost control

6.3.1 Target costing in construction projects

Unlike the budget system, cost control is one of the most crucial parts of International GS's management system, which was particularly reflected in the managing of construction projects. A compelling example refers to GSJN's monthly production meeting whose purpose is to summarize construction progress, communicate construction problems and make periodic plan for the following month. It was found that cost control has been acknowledged as the priority of construction, by which a substantial time of the meeting was involved in reporting material consumption, equipment usage, set quotas for expenditure and analyse possible approaches to make savings. Generally speaking, the cost management for all overseas subsidiaries was strictly established on a unified framework proposed by the head office, known as a target costing system. As a market oriented cost management system which has been increasingly used in Chinese enterprises (Huang *et al.*, 2012), the most essential feature of target costing refers to it provides an alternative to traditional cost-plus pricing system. More precisely, while the price of a product is generated from cost plus expected profit in the traditional way, target costing would fix a price to meet customer and market expectation prior to the production process, by which the estimated profit would not be achieved unless the cost was controlled at the target level. In this sense, this system worked very well in construction companies since the project price is normally fixed prior to construction.

In order to implement target costing, a detailed set of rules and regulations have also been prescribed to guide the cost management throughout construction process. Based on the regulations of the managerial manual, cost management proceeds through three successive phases, namely 'ex-ante cost estimation', 'in process cost accounting' and 'ex-post cost settlement'. Firstly, the processual feature of cost management is intentionally designed to be consistent with the normal flows of a construction project, namely bidding process, on-site construction and completion acceptance. Secondly, it also reflected the key stages involved in target costing in terms of setting price and cost target, achieving target via timely comparison and adjustment, and maintaining competitive costs (through an 'after the event' examination) and rewarding managers for reaching given targets.

However, at the same time it is very unlikely that GSJN would able to make a feasible target on its own because of the implication of the 'national engineering norms'. As a project manager stated:

"…*we have to follow the local rules by giving a 'market' price to complete the bills of quantities; however the price was not really decided by us, especially when the major part of construction resources comes from China.*" (JN17)

In fact, GSJN have made great efforts to reduce their reliance on the domestic (Chinese) market. For instance, managers diversified their operation to upstream industries to produce construction-related materials, and expanded scale of local recruitment to replace Chinese workers. They also encouraged managers contacting with local suppliers and analyse local market. However, it has not yet been able to make substantial changes not only because local market is not developed enough to meet the company's demands, but more importantly, as an overseas department of an SOE, GSJN is expected to stimulate the Chinese market by creating export opportunities. In effect, their independent activities are still restricted by government policies despite the fact that the need for marketization has been greatly expressed by the head office and government.

6.3.2 In-process cost control

Because of the intrinsic defects in achieving a cost target, ex-ante cost forecast and control was restricted in large extent, which in turn led the company to paid extra attention to cost accounting during the construction process. The most manifested evidence refers to the detailed recognition of cost items and classification of expense allocation. As showed in managerial manual, there are mainly five accounting entries involved in each single project in Ghana, which are direct expenses, construction expenditures, expenses of material procurement from China, management expenses and financial expenses. Under this general classification, more than 50 sub-entries have been established to constitute the main body of project cost accounting (details showed in Table 3). A regular appraisal system has then been established which requires each project team to submit monthly report of cost allocation to the company's accounting and operation department. Based on these reports, a special meeting is conducted on a quarterly basis to evaluating project performance, as well as making a control plan for the following quarter. The timeliness of reporting has been exclusively highlighted as the prior principle of in-process cost control. However, in practice because of the considerable amount of cost and expense items and the strict time limit, the control function of cost management tends to be ignored as the project manager has to spend a plenty of time just for recording and making report. As one project manager complained:

"*…sometimes I feel cost has been overemphasized by superiors as the reporting procedure happens too often. The fact is our manager team is quite small when comparing with the scale of project. Each manager has a long daily to-do list to ensure the normal progress of construction. However, we have to do it (cost accounting) because it is imposed by rules and related to our performance evaluation. Therefore, sometime we can't even guarantee the accuracy simply because of the heavy workload*". (JN18)

Other managers even felt uncomfortable about the routine. For example, a manager argued:

"*…to be honest, I believe the superior examination has been conducted in an extreme way, which obstructed the normal project management. It is normal that the project team takes full responsibility for a project, but this is not possible due to the strict expense control and approval procedure, which largely restricts our activities in real work*". (JN12)

Table 3 Construction project cost items

Direct cost	***Indirect cost***	***Management expenses***
Material	Wages – expatriate wages	Office expenses
Labour – local staff wages	Depreciation	Travel expenses
Equipment	Repair expenses	Board of directors' fees
Subcontracts	Amortization of low value articles	Consultation fees
Others	Revolving materials	Auditing fees
Trading and commercial expenses	Labour protection fees	Taxation
Transport charge	Utilities	Wages – domestic staff allowance
Cargo handling	Office expenses	Advertising
Packaging	Travel expenses	Liaison fees
Insurance	Transport charge	Bidding fees
Exhibition fees	Warranty expenses	Depreciation and repair
Advertising	Others	Appliance fees
Wages – salesman	***Financial expenses***	Labour protection
Operating expenses	Interests	Loss on bad debt
Others	Exchange gain or loss	Social expenses
Trading and commercial cost		Information charges
CIF (cost, insurance and freight)	Handling charges	Commission fees
Customs clearance		Superior Managerial fees
Wastage	Foreign income taxation	Project warranty
Others		Other

Adapted from the Management Manual of GSLZ

The manager's argument actually reflects a unique feature of GSJN's in-process cost control mechanisms. While over 50 sub-entries related to cost and expense allocation, 20 of them are under the section of 'management expense', which indicated that almost every possible aspect of management activities were under company's oversight (Table 3). From the head office's view, this was seen as a necessary and even imperative move. As the manager in accounting department stated:

"*…due to project price being fixed (bidding), and actually we are not able to control it in advance (engineering norm), expense saving from the project management process was always the main means to ensure our profit level...*" (LZ12)

The idea of management expense efficiency has also been reflected in additional regulations, which was noted in the 'central surveillance of construction funds usage'. As a result, weekly-based usage plan should be proposed by the project team in advance, which include funds for on-site procurement, local workers' payroll, transportation, office and living expenses. Project team would not receive cash from accounting department unless their plan has been approved by project logistic officials appointed by the head office.

However, from the perspective of the project manager, the planning and appraisal procedure is greatly disconnected from practical situations, which in turn interferes in normal management activities. As one manager stated:

"*…here in Ghana, uncertainty is the normality as changes are always happening in construction. Local workers may suddenly quit the job, suppliers may not arrive on time, and environmental change may force us to stop work for some days, or accumulated the progress in other days. In this sense we really need certain flexibility not only in managing construction site, but also in fund usage to deal with exceptional situations. However, approval and permission are key issues. It is not only about saving cost, but also the issue of trust and mutual understanding because company may think we use the funds for personal interests.*" (JN11)

The manager's argument actually reflected the concerns from the higher level. Both the general manager of GSJN and the managers in International GS stated that because of the information asymmetry between project and company level, as well as the independent nature of project management, it is highly possible that funds could be spent freely either through arbitrary decision making, or even manipulated for personal interests or gain.

The misunderstanding and increased interest conflicts have also been reflected in another aspect of in-process cost management, namely on-site cost control practices. GSJN proposed a slogan of 'make project move' as the principle of construction work, which can be briefly described as large-scale material and labour turnover and a unified schedule of equipment usage on the basis of inter-project coordination. GSJN requested that project teams communicate construction progress with each other to make an ordered and overall plan for resource allocation for a specific period (normally one month). Based on the plan, sufficient materials would be delivered to different construction sites at the beginning of period in order to minimize the shipping fees. Workers and equipment would be constantly transported from one site to another, thereby reducing loss on work stoppages and mechanical wastage.

This idea of overall control actually went against the independent nature of project management, which resulted in severe conflicts among managers from different projects and departments. In other words, while project management has been introduced in China over the last 20 years, independence has already become the consensus among project managers, by which project interest was identified as the key objective since it is closely associated to the manager's own interests. Therefore, since the overall scheduling implied the single project's interest would give way to the overall interest, this somehow caused frustration amongst the project managers. One of them stated:

"*…it often happened that we accommodated ourselves to other projects no matter how good your plan is, in this sense we'd better to wait for company's instruction and just do what company wants you to do*". (JN18)

More than that, he also added:

"*…but we need to ensure the progress of our project because it is the key for the manager's performance evaluation, therefore managers in each project have to strive for superior positions in the overall schedule, and sometimes it made things more complicated and chaotic.*"

His argument has also been echoed at the departmental level, and for example, the director of CSC stated:

"*…projects often fight with each other for their superior right of using equipment; in this sense it put us in a very awkward situation since the project managers always complain about our work. Either we comply with the plan or give certain superiority to particular project. To be honest we all have our own difficulties and reasons and making trade-offs is not that easy.*" (JN7)

Apart from the conflict of interests, the implementation of on-site control practices greatly relied on preciseness, discipline and compliance with overall scheduling, and this indeed reflected military management traditions inherited from the aid-project period, as one project manager commented "*construction site is as same as battlefield, where obedience to command is the key*" (LZ17). However, it seems the use of military based cost control has resulted in several problems including intensive job pressures in Ghana. One manager explained the dilemmas by stating:

"*…military management principle asked us to behave accurately and swiftly which required high level of concentration. It has already intensified our workload as managers since we need to constantly communicate with the logistic department, examine and direct construction progress to achieve project schedule. But under the overall scheduling system we even have to pay extra attention to communicate and coordinate with peer managers and understand the progress of other projects.*" (JN8)

Moreover, the overloaded situation worsened in the case of Ghana because of the shortage of managers, which even resulted in contradictions to the original objectives of on-site cost management. As he added:

"*…here in Ghana experienced project managers are scarce, and for our company almost every person has multiple jobs, which means we are already shouldering two or even three people's normal workload. Therefore it is just too much work so we have no time to stop to self-examine our management problems, let alone improve them.*"

It seems a managerial vicious circle was generated from company's in-progress cost control system. While the company proposed detailed rules to impose cost control system, the use of system was resisted or ignored at the lower level for practical reasons, which in turn led to more suspicion and enforcement at the higher level. As a result, conflicts aggravated along with the increased misunderstandings and complaints, which have even been noticed from top management level, as the general manager stated:

"*I have to deal with this situation (conflicts between project and departmental managers) as sometimes it went irreconcilable, it is frustrating but I have to stand out to keep the balance.*" (JN2)

From a systematic perspective, the inefficient use of in-process cost management indeed indicated that the design of the system was unstable to a large extent. In other words, within the target costing approach, the specific cost accounting and control were based on a pre-set cost target. Since the target for GSJN was merely a nominal one, enterprise-level benchmarks were missed in Ghana. Therefore, although GSJN paid great attention to cost allocation and timely adjustment, the concomitant analysis could be only based on the very recent cost information and merely provided ex-post controls, which in turn resulted in difficulties to maintain effective cost management.

6.3.3 Compensation claim

Some alternative methods have to be used after the construction events as a remedy to the problem faced during ex-ante and in-process cost control. For example, as a legitimate procedure within project contract, compensation claiming usually occurred when material and labour prices have significantly increased during the construction period. Under this scenario, the company has the right to claim compensation to ensure the normal progress of construction. However, due to the uncertain cost target and disorderly control, as well as the unstable local market, this kind of occasional procedure actually became the alternative routine for maintaining profit. As the deputy manager of GSJN admitted:

"*…although it is a passive means, for some long-term projects compensations are really an important source of profit, for this reason we even actively seek for such opportunities to make up for the defects in original project budget.*" (JN6)

As a short-sighted behaviour, it may cause crucial problems for company's long-run development, as he further commented:

"*…claiming compensation is a disturbing process, sometimes a deadlock since both sides would be concerned about their interest. From the financial perspective, it indeed affects our cash flow and* *receivables turnover. But more importantly, it may jeopardize our relationships with the owners, suppliers and subcontractors since excessively claiming for compensation actually violated the project contract, therefore they may reluctant to cooperate with us in future.*"

6.4 Performance measurement and incentive system

Similar to the cost control, the demand for performance measurement and incentive system have also been formally proposed from the head office. Furthermore, it is also consistent with the governmental requirement. Based on the elaboration and analysis of Chinese SOE reform in the previous chapter (5), one of the fundamental problems within China's SOE reform was that the use of incentive mechanisms has not been directed and supported by relevant performance measurement systems. A key example was the failure of CRS which was largely attributed to the negotiable element of the contractual commitment and an inability to provide a solid benchmark for measuring SOE's performance. As a result, its incentive mechanisms had been abused to satisfy personal interests. In this sense, performance measurement and incentive system (PMS) has been highlighted in the China's 12th Five-Year Prospect (2011-2015) as one of the fundamental components of establishing 'modern enterprise management system', which in turn indirectly led SOEs to pay extra attention to establish their own system.

GSLZ has made detailed rules in order to regulate the form of performance measurement, benchmarks and objectives for measurement and evaluation, and methods of salary and bonus calculation. As the director of HR department of GSLZ stated:

"…*those rules directly explain how our subsidiaries' overall performance would be measured and evaluated, by which we expect top managers to have a clear understanding that only their performance determines income*". (LZ6)

However, besides the objective of managerial motivation, the PMS was also used as a communication platform by which the head office's expectations and subsidiaries' practical needs are able to be understood by each other, as the manager further added:

"*…the bases of measurement are two types of indices, financial and managerial index. Those indices actually reflect headquarters' overall plan for overseas development, therefore, by assessing to which extent subsidiaries achieved such plan would give us an overall picture of overseas operation, and it would help with future planning and top manager appointment.*"

In this sense, these rules and regulations provided by GSLZ actually operates as a macro control mechanism, whereby the main target of measurement was the subsidiaries operational performance. Since the performance has been exclusively attributed to the principal managers' responsibility (the general manager of subsidiary), its incentive function only applied to the top management level.

However, PMSs have been developed at other managerial levels. While the managerial manual clearly specified the need to use PMS for all managers, the managerial autonomy to create customized PMS had been delegated to each subsidiary as the basis for managerial promotion, salary and bonus. As showed in GSJN's official documents and managers' interviews, various measurements have been specified and respectively applied to evaluate departmental managerial performance. Therefore, an analysis of International GS's PMS would be conducted from both a head office-subsidiary and intra-subsidiary perspective.

6.4.1 PMS from the top: GSLZ

In order to formally implement the PMS for subsidiaries' overall performance, a standardized procedure has been applied between the head office and each overseas subsidiary. Based on the integration of PMS-related rules, every year each overseas subsidiary is required to signs a responsibility statement with GSLZ. Written in the form of a quasi-contract, the statement clarified responsibilities and obligations of both sides, and specified the subsidiary's annual operational objectives, measurement of goal achievement and benchmarks for evaluation. This statement prescribed the standards for manager's yearly incentive because the salary level of each head of a subsidiary was determined by the completion of given objectives. Correspondingly, the incentives of managers in other positions within the subsidiary have also been tied to company's annual performance since their salary can only float between 30% and 80% of the head's total salary.

From a systematic perspective, International GS's responsibility statement is likely to be recognized as a narrowed form of CRS at enterprise level. The evidence can be found in the detailed target setting for measurement. As showed in Table 4, although the subsidiary's independent capacity (annual turnover and managerial capacity) have been emphasized as the main themes for performance measurement, profit and fees to be paid still represented a large proportion (40%) of performance measurement. On the one hand, the responsibility statement has been understood as a particular method of corporate governance, as one director of GSLZ commented "*the amount for fees was purely determined by the subsidiaries' ROI which reflects their operational performance, implying some form of participation in target setting.*" (LZ10) On the other hand, the target could hardly be described as a voluntary one since the general manager of GSLZ repeatedly stated that:

"*…we invest on behalf of the State and so the safety of national assets is our priority. Therefore the profit handed over not only reflects subsidiaries' performance, but also the most direct measurement for ensuring a return on the value of national assets.*" (LZ1)

In fact, it was found that this kind of state involvement has always played a significant role in International GS's PMS since even the system per se was largely a replication of national standards. More precisely, 'Regulations for National asset performance measurement' was officially enacted by ministry of finance in 1999 (Appendix F). As an instructional system, it specified enterprise's performance should be measured from both quantitative and qualitative perspectives. Quantitative indices mainly reflected financial performance since its four sub-sections focused on enterprise's financial benefits, asset efficiency, liquidity and long-run profitability respectively. Qualitative indices mostly referred to enterprise's managerial capabilities in terms of managerial skill, management efficiency, technique and quality, and strategy. However, a significant feature of this system was its overemphasis on quantitative indices which represented 80% of the overall proportion for performance measurement. Moreover, it was noted that within the quantitative index, financial metrics such as turnover, Return on Assets (ROA) and profit to cost ratio played a dominant (about 50%) role in evaluating an enterprise's operational performance.

Table 4 Summary listing - performance measurement for overseas subsidiaries of International GS

Operation Indicators			Yearly Plan - A	Actual Completion - B	Weight Value - C	Plan Attainment Ratio - D (a*)	Assessment (b*)	
Financial Indicators	1 Annual Revenue	Construction Output			12%			Comments
		Development Business			10%			
		Commercial Trading			6.50%			
		Total			28.50%			
	2 Managerial Fees for Turn Over				20%			
	3 Profit for Turn Over				20%			
	4 Newly Signed Conract				6.50%			
Managerial Indicators	5 Technique & Quality	Technique			2.50%			Comments
		Quality			2.50%			
	6 Environment & Safety				4%			
	7 On-Site Construction Management				4%			
	8 Material Procurement				4%			
	9 Financial Management				4%			
	10 Expatriate Management				4%			
Total Plan Attainment					100%			
a*: Plan Attainment (D) = Actual Completion (B) * Weight Value (C) / Yearly Plan (A)								
b*: D >= C, Plan Attained; D < C, Plan failed								
P.S. Total Marks of 1 - 10 >= 100%, Annual Operation Goals Attained; < 100%, Annual Goals Falied								

Adapted from the Management Manual of GSLZ

All of these systematic trends are presented in the design of the PMS at international GS. Their measurement index has also been separated into quantitative and qualitative parts with slight changes in distribution (70% to 30% respectively). Although the company used different titles (economic responsibility and management index), the index was prone to rely on financial benchmarks. Furthermore, the dominant presence of financial metrics is amplified since annual turnover and outputs were the only targets for measurement except for the inevitable element of the profit hand over (managerial fee). Nonetheless, this sort of oversimplified PMS to certain extent improved overseas managers' motivation as one director of GSJN stated:

"*…anyway, it (PMS) inspired us to pursue profit. As people in here have a consensus that unlike in China, we don't have "iron rice bowl[3]" but rather individual efforts determine earnings.*" (JN16).

However, since company's performance was largely measured using short-term financial indices, the biased PMS generated several side effects. Firstly and the most serious problem referred to the short-sighted behaviours which played against the long-term sustainability. Because of the low profitability and the time consuming feature of the construction business in general, it is unlikely that the construction operation would solely be able to achieve the company's financial targets unless costs are managed as efficiently as possible. However, as previously mentioned, GSJN's cost control was rather less developed, and some trade-offs had to be made to cope with the practical challenges. As one manager stated:

"*…we have no intention to compete with western companies, in Ghana we only have advantages and confidence to compete with local companies in the low-end or protected (government-led) market …and we work in a very pragmatic way - meeting client's minimum needs, no more no less, because only work in this way can we ensure enough output to pass the annual assessment.*" (JN9).

The kind of compromise and passive behaviour may diminish manager's motivation, but the more adverse consequence would be revealed in longer term, as the manager further commented:

[3] Iron rice bowl, translated from Chinese "Tie Fan Wan", is a Chinese idiom refers to a guaranteed lifetime employment with steady income and benefits in a SOE.

"…*it won't go on for long because customers always want the better option, and we would have no chance once local companies grow up but it is what happening.*"

While diversified operations have been greatly advocated as the promising alternative in future, its performance has also been restricted because of the short term measurement. For example, the director of SP (pharmaceutical manufacturer) complained that:

"…*although we are one of the largest pharmaceutical manufacturers in Ghana, right now we can only offer basic products such as saline and glucose injections, because we have to reach a certain output to make up for the gap of our diversified operation turnover target before developing new products… But it isn't over, just like an inertial force, the construction idea of cost saving has even affected our operation. I have to say it is unreasonable as we are in a completely different industry and we need extra money for R&D, cost saving should not be our concern.*" (JN10).

Another side effect of the financial-driven PMS resulted from the inherent defects within the selected measurement indices. In other words, while GSLZ only provided turnover and output as the benchmarks for measurement, local managers (GSJN) somehow were able to manipulate the accounting reporting process to satisfy their own interests. The CFO of GSJN demonstrated that:

"…*head office exclusively regards basic accounting figures such as turnover, cost and expenses, but as you know all of these are accrued numbers. Therefore, I am able to make some adjustments when making internal financial reports. For example, if I predict that the following year would be a tough one, I would postpone the reporting of certain parts of the accrued income to next year to make up the possible loss. Meanwhile, a lowered income figure for the current year would also lead head office to assign us a smoother future target.*" (JN5)

Although he acknowledged that this kind of manipulation distorted the company's real performance measurement, he argued it is necessary because:

"*…we can't violate head office's standards in spite that it is unfair to exclusively smooth our efforts to reach certain figures. Therefore, when the interests of everyone within this company are closely associated with the result of performance measurement, we have to adapt to it*".

In this sense, it is likely to argue that conflict of interests between superior and subordinate (i.e. GSLZ vs. GSJN) has been aggravated because the arbitrary measurement setting failed to consider the company's needs and circumstances in the local Ghanaian market. Therefore, while those measurement indices were required and determined local manager's welfare, the PMS became diminished in its efficacy, up to the point that it has been manipulated.

6.4.2 PMS in GSJN

Although the domination of financial indices was notable which to a large extent jeopardized the expected effect of PMS use, it is still acknowledged that the company has not ignored the non-financial management indices. The 30% proportion of managerial measurement showed the company attached importance to their managerial standards, and as a result, 6 sub-sections have been designed which covered most aspects of management in a construction company. Therefore, by designing the metrics in line with the company's departmental structure, GSJN was able to develop their internal system for assessing departmental performance, and then report the results to head office to approve departmental directors' bonuses and promotions.

As showed in Table 4, the six classifications of the management indices are technique and quality, environment and safety, on-site construction, material procurement, financial management and expatriate management. Therefore, it indicated that attention have been exclusively paid to project management as the former 4 parts of managerial measurement were directly related to construction work. Moreover, even the financial and expatriate management were also closely related to construction projects because the major metrics for these two parts were 'payoff rate' and 'supervision and implementation of project managers' incentives mechanisms'. As a result, the setting of internal PMS was biased, in that it failed to measure managerial performance in non-construction departments.

This issue is significant because it did not take into account that the company's operational plan expected that 40% of total turnover was to be generated from diversified sub-companies involved in material trade, pharmacy, hotel services and real estate industries. The lack of customized PMS somehow reflected the manager's oversight in managing diversified operations. The director of GSIT (trading company) stated:

"…*currently our performance is exclusively measured by financial figures such as turnover and cost indices because these are rigid objectives assigned by head office. I have to say many managers still think diversification just plays a supplement role so they were reluctant to pay much attention to it. The construction-based idea is prevalent here as people always think that unlike construction work, our management errors would not cause serious consequences such as building collapse or people injury or death.*" (JN12)

The oversight in assessing managerial performance in non-construction department has also been explained by the shortage of professional managers. The director of HR department argued:

"…*although we repeatedly emphasized the importance of diversification, the fact is our current management team is still not competent to face these new challenges. Because of the shortage in people in Ghana, managers are playing multiple roles in our different kinds of business despite most of them come from construction industries, they don't have enough knowledge in other industries and they also don't have time to learn, therefore they can only manage company in the way they familiar with, not to mention establishing appropriate performance measurements*." (JN13).

While detailed benchmarks have been formally established as company rules and regulations for measuring construction performance, several problems have also been found which to large extent diminished the efficacy of PMS in practice. The most crucial problem referred to the prevalent result-oriented ideas dominating the setting of measurement indices, which led the evaluation of the process being overlooked. For example, while Table 5 shows the indices for measuring technique and quality management, it is noted that 4 of the 6 indices are simplistically assessed on a 'yes/no' basis. In other words, managerial targets would be fully scored when "*project quality was approved, accident did not occur, quality control methods were established or quality reports were submitted*". Otherwise, those targets would be identified as not achieved and scored as zero. In this sense, cause and difficulties within the managerial process have not been considered in the performance measurement, system and the objective of measurement is blurred. Hence, the outcome does not provide any constructive feedback for managers to develop control practices for future improvement.

Table 5 Detailed listing - measurement indicators for managerial performance 1

<table>
<tr><th colspan="5">Technique & Quality</th></tr>
<tr><th>Code</th><th>Indicators</th><th>Marks</th><th>Actual Marks</th><th>Evaluation Criterion</th></tr>
<tr><td>1</td><td>Whether Project Quality Achieves 100%</td><td>15</td><td></td><td>One-Vote Veto, Mark 0 if not achieved 100%</td></tr>
<tr><td>2</td><td>Whether Quality Accident Occurred</td><td>15</td><td></td><td>One-Vote Veto, Mark 0 if Accident was Occurred</td></tr>
<tr><td rowspan="2">3</td><td rowspan="2">Whether Established Methods and Rules</td><td rowspan="2">15</td><td></td><td>1. Reporting of Methods and Rules to Head Office (10)</td></tr>
<tr><td></td><td>2. Executive Condition (Monthly Report, Work Summary) (5)</td></tr>
<tr><td rowspan="2">4</td><td rowspan="2">Whether Established Quality Management System</td><td rowspan="2">10</td><td></td><td>1. Internal Examination Report (5)</td></tr>
<tr><td></td><td>2. In-Project Operational Report (5)</td></tr>
<tr><td rowspan="3">5</td><td rowspan="3">Technique & Quality Reporting</td><td rowspan="3">25</td><td></td><td>1. Monthly Report (10)</td></tr>
<tr><td></td><td>2. Summary after Completion of Single Project (10)</td></tr>
<tr><td></td><td>3. Annual Summary (5)</td></tr>
<tr><td rowspan="3">6</td><td rowspan="3">On-Site Examination</td><td rowspan="3">20</td><td></td><td>1. Project Quality (12) - Good (12), Medium (6), Poor (0)</td></tr>
<tr><td></td><td>2. Re-Examination of T & Q Method and Rules (4) - Good (4), Medium (2), Poor (0)</td></tr>
<tr><td></td><td>3. Re-Examination of T & Q Management System (4) -Good (4), Medium (2), Poor (0)</td></tr>
</table>

Adapted from the Management Manual of GSJN

Another problem could be attributed to the vague benchmarks for measurement. For example, Table 6 clearly showed the "*level of exploration and development of commercial business*" as one of the main targets for measuring material procurement performance. However, the extent to which this target can be recognized as 'achieved' has not been specified in any concrete form as only a narrative but ambiguous statement was given, i.e. "*overseas company should make great efforts on exploring and expanding local market, and actively seeking for more opportunities for international commercial trading.*" Therefore, while managers merely obtained instructions and feedback from the measurement system, this part of measurement system became a barrier to real work which in turn intensified manager's workload. As the director of engineering department argued:

"*…we didn't get much valuable information from the evaluation, so we barely have ideas to improve management. It is getting more frustrating when you made great efforts but failed to achieve the requested target, because we don't know what happened.*" (JN14)

Table 6 Detailed listing - measurement indicators for managerial performance 2

Material Procurement and Commercial Management				
Code	**Indicators**	**Marks**	**Actual Marks**	**Evaluation Criterion**
1	Reporting of Material Planning	20		Strictly Follows Approval Procedures, Timeliness, Detailed Contents with Material Name, Specification, Range, Texture and Standards
2	Communication and Confirmation for Planning	20		Timeliness, Whether Earnestly Communicated about Planning Problems
3	Inventory Check & Acceptance	20		Strictly Follows Procedures, Detailed Check of Goods Quantities, Quality and Package, Reporting of Acceptance
4	Level of Exploration & Development of Commercial Business	20		Overseas Subsidiaries Should Endeavour to Explore and Expand Local Commercial Market, Actively and Earnestly Improve Trading Business
5	Fixed Assets Management	20		Strictly Follows Procedures of Fixed Assets Procurement, Management and Reporting
	Total	100		

Adapted from the Management Manual of GSJN

The problematic system also resulted in manager's negative attitude towards the system, whereby it has even been largely distorted as a nominal procedure. As one manager stated:

"*…actually I didn't appreciate that the system has any association with my real job performance… It's part of my job to fill in the forms but that's all. I have to do it only because we were asked.*" (JN26)

6.4.3 Subjective evaluation of performance

Since the immature PMS appears to have failed to articulate its effectiveness in practical project management, and could not provide concrete measurement for other areas of management, this led to the managers' performance being evaluated in an alternative way. For example, Table 7 shows a standardized appraisal form for recording expatriate managers' annual performance, which was not only used by the subsidiary's HR department to decide on a level of a manager's incentives, but also submitted to head office as a career reference for determining the manager's future appointments. The information for appraisal was generated from two approaches namely peer manager mutual evaluation and superior assessment.

Peer evaluation has usually been conducted between managers within project, sub-company and the relevant departments of head office, as the HR director introduced that:

"*…it is an interactive approach which reflected mutual opinions of managers from both sides, so the supervisors were able to obtain a more comprehensive understanding about company's internal cooperation and coordination*". (LZ6)

In contrast, the superior assessment was mainly conducted in a top-down hierarchical way, where departmental directors and principals of sub-companies independently made final assessment for each manager within the department or sub-company, and then reported the results to HR department as official records. In this sense, although the outcomes of peer evaluation would be used as a reference, it was manifested that the director's opinions exerted a greater impact on the final result. The imbalanced treatment to the two evaluation systems has been passively described as the 'normal' procedure as one manager stated:

"*To be honest, for me the peer evaluation is merely a 'formal procedure' since we all understand it would not as important as the comments from your superiors.*" (JN27)

Table 7 Expatriate appraisal form

<table>
<tr><th>Name</th><th>Gender</th><th>DoB</th><th>Education</th><th>Country of Working</th></tr>
<tr><th>Political Position</th><th>Specialty</th><th>Technical Title</th><th>Language</th><th>Job Position</th></tr>
<tr><th>Annual Work Summary (Self Evaluation)</th><td colspan="4"></td></tr>
<tr><th>Evaluation from Relevant Department</th><td colspan="4">Approved by Departmental Director:</td></tr>
<tr><th rowspan="4">Remarks</th><td colspan="4">1. Annual Work Summary Includes:</td></tr>
<tr><td colspan="4">Political and Ideological Thought, Work Attitude, Observe Discipline, and Goal Attainment</td></tr>
<tr><td colspan="4">2. Departmental Evaluation Includes:</td></tr>
<tr><td colspan="4">Morality, Capacity, Diligence, Achievement and Honesty</td></tr>
</table>

Adapted from the Management Manual of GSJN

Furthermore, although this appraisal form included a brief note of objective measurements such as technical qualification, work capacity and achievement, a greater attention has been paid to subjective information about managers' ideological and moral qualities, working attitude, diligence and integrity. Since it was difficult to set boundaries or build benchmarks for aspects such as 'morality', 'diligence' and 'integrity', evaluation based on these subjective concepts were likely to become a flexible mechanism which depended on personal judgments, leading to either superficial or biased results.

Firstly, it was found that the prevalence of egalitarianism idea greatly shaped peer evaluation as a nominal mechanism. As one manager of GSJN stated:

"*…honestly speaking it is a tacit fact that we intentionally avoid to express particular opinions to our colleagues, especially critical assessments of their performance. Because eventually we are all companions working in the same place and seeing each other every day, nobody want to being a bad guy and hurt others feelings. In this sense, the best method would be playing it equally and evaluating everyone to the same but favourable level. Although there are several quantitative* *measures to distinguish people's performance which we can't change, at least we can keep balance on those subjective aspects*". (JN8)

Secondly, since the top-down superior assessment largely influenced the final decision, this not only aggravated the nominal use of the peer evaluation, but also resulted in authoritative behaviour in the measurement system. As the director of SP stated:

"*…we always emphasized the importance of formality, rules and institutions, however in many practical cases these are no more than slogans because the superior's ideas and comments always played a significant role in our promotion and incentives."* (JN10).

The authority of superiors has been formally embodied in the company's official rules, which even appeared to have autocratic meanings. More specifically, based on GSJN's scope of job responsibility, it was found the chairman exclusively has the right of appointment and dismissal of directors in each department and managers for each project. More than that, "*accomplish other work tasks assigned by superiors*" has been prescribed in rules as a normal requirement in all job descriptions without any explanation of the job scope. In this sense, while a vague definition of job responsibility has been prescribed as a reflection of authority, the significance of superior's personal judgment would be further amplified in evaluating managers' morality, diligence or integrity.

From the lower manager's perspective, the overplayed superior authority would in turn result in compromise or purposive treatment. As the director of project management stated:

"*…it is common that you will need to do extra jobs assigned by superiors even these are not your responsibility, and these jobs should be your priority as you hope to leave a good image to the superiors. I can't say it is right or wrong because that's a taken-for-granted norm and everybody works this way. Anyway it is a* ***Chinese*** *transnational company and* ***SOE****; nobody can escape from the Chinese way – being a nice guy, maintain good personal relationship and follows the superior's way."* (JN15).

However, the emphasis on superior authority and subjective judgement has been fiercely criticized by Ghanaian managers as one of them complained:

"*I don't know if there is a written form for performance evaluation since my performance is merely decided by the Chinese bosses. However, in my opinion, I felt that some Chinese superiors are arrogant and unreasonable. They will assign work to you with tight deadline but won't give any specification and feedback. What the worse is they will not give you chance to explain the problem and difficult related to the work. So if you can't finish the job on time, what you will get is warning letter and penalty.*" (JN24)

Moreover, the autocratic meaning has been amplified in local managers' perception, as the HR manager of GSIHM commented:

"*In fact, the only reason for staying in this company is I want to take care of those local workers in the hotel as they come from my hometown. I'm afraid that without my protection and conciliation, those Ghanaian will be treated unfairly by some Chinese managers.*" (JN20)

Although the shortcomings of GSJN's PMS have been showed, a compelling finding is rather than being identified as a systematic failure, Chinese managers from different levels actually showed their willingness to use this unique form of subjective measurements. For example, the director of GSJN's HR department confirmed that:

"*…working performance can't reflect manager's overall quality… We believe measuring personal qualities such as moral and ideological level, diligence and integrity are also important because those characters will determine how a person behaves himself (herself) in workplace and how he (she) cooperate with colleagues."* (JN13)

His argument has even been echoed as an organizational preference, as the general manager of GSJN emphasized in the company's semi-annual conference that:

"*…(good) moral character is always a prior over one's skills, we should pay greater attention to those subjective measurements as these play a more important role in the manager's long term development.*"

6.5 Localized management control

Unlike the three aspects of management control system mentioned above, localized management was a complete bottom-up control originally proposed by GSJN in early 2000. Initially, it had been identified as a management innovation which played as a supplement to conventional control systems. As the chairman of GSJN stated:

"*The preliminary purpose of localized management was to addressing particular problems in local construction works. For example, we recruit a small amount of local workers as they would help us to have a better understanding about construction site and surrounding facilities.*" (JN1).

However, while the strategy of expanding overseas operations inevitably led to increasing interactions with local contexts, as well as changed the intrinsic operation mode of the company (construction-based operation). Major problems emerged and even jeopardized the normal operation in Ghana, which prompted GSJN to adopt a more progressive attitude towards localized management.

6.5.1 The emergence of localized management

Problems met by GSJN can be explained from both an external and internal angle. From the external perspective, GSJN's construction work had been postponed and its diversified operations had even been rejected because of local resistance and governmental restrictions. The deputy manager of GSJN explained that:

"*I can tell the most essential reason was our image has been affected by the irregular and irresponsible behaviours happened amongst certain groups of Chinese who conducted illegal gold* *mining in Ghana*[4]*. They were not only causing local environmental damage and resource loss, but also led to more corruptive behaviour since they always bribed governmental officers for illegal permits."* (JN3)

The manager further commented:

"…a general phenomenon is nowadays Chinese are becoming less welcomed than before… because to a certain extent locals gradually see us as predators or profit seekers. It is really a big trouble for us especially when we tried to enter in this country's other industries. Expanding our operation is replying on greater local support and trust, so we have to do something (localization) to ease resistance."

In addition to the resistance from societal and individual perspectives, governmental interference became more frequent as a means for local protection. The statistical figures showed there were more than 4500 Chinese people have been repatriated by Ghanaian authorities in 2013 (BBC News, 2013). Although most cases related to illegal gold mining, there was also a new policy on foreign work permits. As the manager argued:

"…*local government concerns that local employment opportunities will decline due to many Chinese people. In this case they must treat us more strictly by setting a mandatory proportion for local workers in projects, and even reduce the number and control the approval procedure for foreign work permits.*" (JN19)

The policy change has greatly influenced the company's long-standing practice within its construction work, as one manager argued:

"…*to certain extent we still remained the old habit of 'Cheng Jian Zhi' and we were even proud of this idea since which represents our tradition and achievement in aid-project period. Therefore, for a long time we transferred a substantial number of Chinese workers to conduct local construction,*

[4] As Africa's biggest gold producer after South Africa, gold mining in Ghana plays the key role in national economy and people's livelihood. Local resistance and conflicts spread to China-based companies when Chinese people were found to be involved in this illegal act.

not only it is an easier way for communication and cost saving, but also because we were used to it. Therefore, when nowadays we must comply with local policy, people shortage has become the most serious problem in construction work, which forced us to make changes (localization) to cope with it." (JN27)

The shortage of staff can also be explained from an internal perspective in terms of the company's own circumstances, as well as China's domestic environment. Due to the rapid economic development in contemporary China, the surge in domestic infrastructure projects resulted in a dramatic rise in the demand for relevant workers and technicians, which in turn led to a reduction in the difference of personal income between China and overseas markets. As one manager of GSLZ stated:

"*Ten years ago the average salary of Chinese workers was ten times cheaper than local ones even when we paid them far higher than the domestic average in China. However currently we do not have any leverage in the labour cost because we need to match the competitive salary level from domestic Chinese market. It is natural that we started to use local workers regardless of the problems of communication, and quality of work, because in construction work everything else would give a way to ensure access to labour force."* (LZ18)

While the reduction in income is a general phenomenon, it also impacted on the company's management level. Several managers in GSJN acknowledged that a greater payoff is one of the biggest motivations for them to work abroad; thereby they were feeling less satisfied about current job income. As one project manager stated:

"*…when I talk to my friends in China, I found although I earned more than them, but the difference is not significant enough for me to make such trade-off to stay here."* (JN27)

During the whole field research in Ghana, it was found such passive attitude especially prevailed amongst the junior managers, of which more than half of them in GSJN (8 of 13 interviewees aged below 30) have indicated that working in GSJN was just a temporary option. For example, a young director admitted that:

"*I only have a two-year plan to stay here as our employment contract was normally signed on this length. For me the main reason of working in GSJN is obtaining overseas work experience, so that I will have more options for a future career.*" (JN15)

The frequent personnel turnover (two-year contract) in GSJN's management level not only affected company's implementation of management control systems. But more importantly, while the loss of human resource was more manifested in the junior group, the company's ability to sustain new development and business in the local market has been greatly endangered, leading to a demand for localization. As the general manager of GSJN stated:

"*compared to the with labour force, a shortage in management staff is a more crucial problem, simply because no one can be qualified as a manager with just a few days training and practice. We have to make changes to maintain our existing human resources, or develop local recruitment system, but either way we need localized management".* (JN2)

Based on GSJN's Chairman's explanation, the main theme of localized management can be summarized as:

"*…how we can integrate ourselves into local communities. In other words, we expect local people accept us as a Ghanaian company, rather than foreigners coming from thousands miles away*". (JN1)

In this sense, unlike the company's other management and control system which focus on rules, regulations and standard managerial practices, localization was largely recognized as a significant idea that would have a pervasive effect on formal and informal control practices. However, while most of company's difficulties were referred to people shortage and local resistance, the idea of localization has been extensively revealed in two aspects, i.e. local human resource management and expatriate personnel control.

6.5.2 Localized human resource management

As the first level of local HR management, the localization of construction workforce reflected the company's intention to decentralize its managerial control. Based on local laws and governmental regulations, each project team was fully in charge of making recruitment plan, contacting local institutions for labour selection, allocating construction duties, and evaluating workers' performance for payroll, promotion or dismissal.

Moreover, whilst partial managerial power was delegated to local workers, the idea of decentralization also represented the way how localization was conducted in construction management. In other words, because normally hundreds of workers would be involved in construction work, it is unlikely that a few number of Chinese project managers would be able to manage each worker involved in the construction process. Therefore, workers would be firstly divided into various groups based on project progress and type of work, and then one local worker would be selected as the leader for each group. The group leader was mainly responsible for supervising worker group's performance, and providing a timely reporting of the construction progress and problems to Chinese side.

This particular "*local manages local"* (name used by Chinese managers) was seen to dramatically improve construction work efficiency as the director of engineering department stated:

"*We have made some calculation…while one experienced Chinese work leader can manage a 10 men group at most; our local leader can easily reach 50 with equal amount of workload per person."* (JN14)

He greatly attributed the local leverage to a better communication generated from the removal of language barrier, as he argued:

"*…construction is a physical work and in China the main source of labour is a peasant who normally has very low education levels. Although we conducted language training course in China, it was too basic to let them manage a group of local workers.*"

It also eased the heavy workload of Chinese managers as one of them added that:

"…*local leaders can do a great job for delivering our ideas and instructions to other workers as long as we clearly explain our instructions. It is really a relief for me since I only need to deal with one person rather than everyone involved in the work.*" (JN18)

However, the manager also reflected that the improved efficiency was not solely resulting from language issue as he commented:

"*I have no difficulty to speak English to local people, but I always found information conveyed by local leader would lead to faster reactions than I did, even if the content of the instructions were the same. I think it reflected the locals' strong sense of self-identity and acceptance, but it also corroborated how necessary the role of local leader plays in our operation.*"

The progress of localization has showed a great success in GSJN's workforce management, whereby 95% of construction workers in Ghanaian projects had been replaced by local people at the end of 2013. Yet, construction management control mainly remained in Chinese hands. In other word, the widely accepted idea of 'middle man' was still implied in the deployment of local workers. The director of HR department explained that:

"…*'middle man' actually represent a balance between Chinese and local worker. Although we need local leader's help to communicate with the collective of local workers, or even resolve possible conflicts, we want them to act on behalf of Chinese and make sure our rules can be conveyed to and complied by locals.*" (JN13)

The idea of 'middle man' was greatly manifested in the personnel configuration of working groups. No matter how many local workers are allocated into a group, there must be a Chinese representative who solely owns the decision making rights and directly instructs and oversees the local leader's daily job. In this sense, it is fair to state the original objective of localized management – making GSJN as a Ghanaian company, has only been implemented at the very superficial level and the increased number of locally recruited employees may become the only achievement of localized management.

However, a somehow unexpected finding showed that for most of Chinese managers the lack of mutual communication was acceptable, in which some of them even indicated their preference to the company's current localizing approaches. For example, a manager stated:

"*…considering the two nations' economic differences, we believe our construction work and management is still in a leading position, therefore we actually tried to train and guide local people by asking them to do what we do. When the capacity of most of local workers is still lagging behind the requirement of our projects, I think compliance may be a better way of learning.*" (JN9)

From the perspective of construction practice, one project manager argued:

"*I think you have heard too many times but I still need to say military management is our spirit – comply with rules and commands. In construction site you need fast reaction, decisive decision making and judgment, it is really not a good place for democracy because there is always a need for one man to stand out, speak and take responsibility."* (JN17)

Whatever the reason was, one thing has been manifested is the proposition of 'considering from local view' would lead to nothing but empty talk.

More importantly, when words such as 'discipline' and 'compliance' were insisted as taken-for-granted principles, imposing locals to behave in their way has been interpreted as a well-meaning and reasonable action from the Chinese view. Therefore, negative attitudes such as non-cooperation, dissatisfaction, and complaint from locals would be identified as an ungrateful behaviour which even deepened misunderstanding from both sides. The most manifested example referred to Chinese managers' perception about delayed construction progress generated from local worker's sabotage or strike. As one manager stated:

"*The most significant difference between Chinese and local worker is the latter's slack attitude towards work. They can be absent from work and come back one week later without any sense of* *guilt. People always say it is local's nature as they yearning for freedom and relax. In my opinion it is lack of responsibility because I can't even imagine it will happen with Chinese workers.*" (JN11)

The manager's argument actually reflected a stereotype towards locals that has been formed because to certain extent many Chinese interviewees, especially those who had short work experiences in Ghana, have showed similar thoughts by describing locals as undisciplined, indolent or lacking a the sense of responsibility. Whether their thoughts were biased and due to the reluctance in mutual communication, the only solution for them was to reinforce the imposition of discipline and compliance. Therefore, a vicious circle emerged which aggravated the lack of cooperation and dissatisfaction from the local. More than that, due to the fact that the GSJN's workforce sources to a certain extent depended on local recommendation. As a result, close connections among local workers were able to be built based on family members, fellow villagers, or tribe members. In this sense, an interpersonal conflict was quite likely to be expanded to inter-group one which eventually resulted in a bigger gap between Chinese and Ghanaians. A compelling example refers to the Ghanaian HR manager's explanation of his job selection (as the abovementioned quote from JN20). While it was stated that he expected to help local workers in the company's hotel since they are fellows, in Chinese managers' view the emergence of local in-groups may be dangerous as one director stated that "*it empowers locals to confront the company's rules*." (JN11)

The second level of local HR management mainly focused on the localization of GSJN's managerial personnel. Compared to the progress of the construction workforce, localization of management was still at a very initial stage. The company's management staffing table showed about 15 Ghanaian managers were formally recruited by GSJN, which presented a small percentage compared to about 100 Chinese managers. Imbalance and scarce local human resource has been recognized as the main cause for this slow progress in the localization of management, as one top manager of GSJN stated:

"*On the one hand, a major proportion of local applicants were less educated, which are not qualified in a management position, on the other hand, there are only a small number of local* *senior manager in the market but they prefer to work in local or western based companies simply because of similar operation systems and language. We have to start from the beginning by providing internships for local university graduate. But it is a long-term process and we just started it.*" (JN4)

However, based on the company's current local manager's job allocation, the argument about an underdeveloped local market seems to be used as an excuse for the company's slow progress in the localization of management. In other words, among GSJN's local managers, about two thirds of them worked in the company's diversified sub-companies, who were mainly responsible for marketing and sales, customer services, local personnel management and coordination. The deputy manager of GSJN explained that:

"*Our management localization was conducted selectively. There is a clear boundary of job responsibilities between Chinese and local managers. Simply speaking, the former provide idea and the latter ensures it works… It is a purposive HR allocation since our only demand for local manager is a good communication with local companies, government departments, suppliers and customers. Therefore, it is natural for local managers to be allocated at the grassroots management level as those positions are more likely to be in contact with local people.*" (JN3)

Therefore, the company's objective of localizing management was quite consistent with its workforce localization, for which the idea of 'middle man' was always implied and limited the manager's function to that of a 'communicator'. This finding was echoed with Kernen and Lam's (2014) study about Chinese SOE's personnel localization in Ghana, as they stated using local manager as an 'interpreter' was a common approach within Chinese based companies. They further commented that this restricted employment approach resulted in less attractive job role and position, which led local managers to feel uninterested in working for a Chinese company. This argument to certain extent explained HR director's opinion about local senior managers' job preference.

Furthermore, although there were five locals who work as middle managers in the company's key departments such as accounting, project operation and administration, the 'interpreter' feature still remained which further isolated them from the company's management control practices. For example, two managers from accounting department stated:

"*Our job is to provide company's financial reports based on local regulation but these were mainly used for local auditing and taxation. Our Chinese director will independently make another set of reports based on Chinese regulation. Although our report will examined by the director, we don't know whether the relevant financial information from our reports will be further analysed or impact on company's future operation because we can't see the other version.*" (JN22, JN23)

This form of unidirectional communication has also existed at middle level management localization but starting from the opposite direction. The reversed communication channel has also been found in other managerial aspects which even suppressed local manager's motivation, as a local manager in operational department expressed:

"*…as a construction appraiser my job is to provide information about project pricing, however I can't participate in the whole bidding process because every time when the final pricing was about to be decided, Chinese managers will lock themselves in a room until the bidding documents were sealed. Therefore I don't know if my advice was useful. As a long-time member of this company I still feel isolated and it is hard to fit in, obviously Chinese people always recognize us locals as outsiders and treat us differently.*" (JN25)

The different treatment mentioned by local managers actually reflected a lack of trust from both superiors in China and Chinese local managers. As the deputy manager of GSJN stated that

"*Although we expect management localization to be expanded in scale, we have to be very cautious. Sensitive positions, I mean positions which have the right to make decisions, must be controlled by the Chinese. Because eventually we are SOE so we need to make our national assets safe in any condition. In this sense, supervisors in China expect local managers play a role as advisors rather than controllers… One the one hand we don't have much authority as most of the important management positions are actually appointed by the head, and on the other hand, most Chinese locally do not fully trust the local people. Considering the short history of localization, it is* *understandable as only a small number of Chinese managers had the chance to contact with local people and in most cases their topic was limited to the workplace. Local society, customs and culture are complete alien to them, not to mention having trust in local people.*" (JN6)

Due to the unidirectional communication in both workforce and management levels resulted in mutual misunderstandings and trust problems, it appears that the localization did not achieve its original objective of improving local cooperation. Therefore, the misunderstanding and incompatibility between Chinese and locals may further jeopardize the company's personnel localization, which in turn aggravates the status quo. However, based on interviewees' responses, it found that local people showed more liberal attitude than Chinese towards misunderstanding despite the latter proposed the idea of localization. While locals expressed:

"*…income is not the prior reason for me to working in a Chinese company. I feel more interesting in the challenges derived from different culture, custom and ideas. So I hope our Chinese colleagues can be more open minded and talk with us*" (JN21)

Chinese people somehow showed a reluctance to contact with locals, as the chairman of GSJN concluded:

"*I wear local dress, eat local food and speak Akan (local language) so I have made a number of friends in Ghana during my 20 years career in Ghana. When you identify yourself as a Ghanaian and do thing in their way, there would be no barriers, and that's why I proposed localized management. However, while most of our managers don't have a chance or a reluctance to blend them in a short time, they can only think in their intrinsic ways and any difference would be recognized as abnormal, and lead to bias.*" (JN1)

6.5.3 Localized expatriate personnel control

The chairman's argument mentioned above reflected the dual nature of localization. In other words, while the company could be partially localized through increased local participation, the more important issue is how the Chinese people adapt themselves to local conditions. As a shift in managerial notion, this kind of self-adaptation required a localized expatriate management as he further commented:

"*It is not about how we prescribe managers' behaviours by rules, but we intend to plant an idea in the expatriate's mind that let them consider local views, behave like local people, and use local-friendly means in their management practice*".

Pre-job training has been extensively used as the means developing localizing expatriate management since every new manager is required to attend a series of training courses before starting work. Although there was no formal procedure to standardize the training material, the main themes were identical as the HR director of GSJN introduced:

"*The main purposes of those courses are to emphasize the importance of complying with local laws and regulations; respecting local culture and customs, and providing tips for dealing with the possible difficulties they may meet in Ghana.*" (JN13)

Follow-up training, feedback and evaluation mechanisms were also established to ensure the idea of localization has been performed during management practices. The director of HR explained that

"*Firstly, in-job training was conducted to help managers tackle with newly emerging local situations, especially problems generated from local political upheaval. Secondly, we also encourage managers hold seminars for exchanging their ideas and providing suggestions about localization. Lastly we include localized management practice as an index for the manager's performance measurement.*"

The above showed that GSJN has made great efforts to localizing its expatriate management, which at least reflected the idea of localization has been accepted and recognized as the company's vision at top management level. However, based on interviewees' responses, it was found the training have been conducted in a pragmatic way and to large extent diverged from top managers' expectation. In other words, a large number of managers have mainly equated 'localization' to 'compliance with local laws and regulations' without being concerned with other aspects of the locality e.g. local people's views, culture or customs. For example, one Chinese manager stated:

"*In real work, the most important thing we've been told was to conduct construction work using local government regulations. Actually we have spent a lot of time researching construction related laws and regulations and all of these rigid requirements have been strictly complied through the whole construction process. For me this is localization because as long as you do what the locals ask, you will be accepted by them*". (JN11)

The company's performance measurement index also corroborates the manager's argument. More specifically, while "*implementation of localization in managerial practice*" was the item for measurement, the only two benchmarks were "*whether a regular training system of localization has been established*" and "*if there were serious management error generated from breaking local laws.*" The indifferent attitude towards the societal and cultural context was also revealed in a conversation with managers. When asked about his perception of local culture and customs, a manager stated:

"*The most significant change we have made in Ghana was we stopped arranging construction work on certain religious days as locals will go to church. Showing respect to local custom, that's my understanding about localization. However, respect doesn't mean appreciation so I don't think it is necessary to understand their culture or customs."* (JN7)

In this sense, managers in non-construction positions show a stronger level of indifference to local contexts as they had fewer chances to interact with local people. Therefore, while the focus on localization was further prone to regulatory aspects, a more pragmatic practice emerged, by which maintaining relationships with local government has been identified as the most effective means of localization. GSJN's general manager stated:

"*We actively cooperate with government by complying with their regulations, becoming a member of local workers' union and even undertaking some low-profit governmental projects. Our top* *managers also maintain good personal relationships with government officers and participate in local public events. All of these help us to be accepted by local government and we also obtained great benefits from them*". (JN2)

Although favourable outcomes were generated from this alternative approach of localization, it actually created a great ideological divergence between the company's top and lower levels. Since company-government relationships were only possible at the top management level, the whole set of localized mechanisms were being used perfunctorily and this impacted on managers' thoughts and behaviours. As one manager commented:

"*I feel fine with the idea of localization but it shouldn't be done like this way since not everyone have the chance to contact with government. Therefore all the trainings and announcements were nothing but brainwash, for me these are just nominal jobs what we have to do.*" (JN19)

Moreover, it was also found that a tight control mode was implied in the company's expatriate management, which resulted in an internal reluctance to company's localization agenda and further worsened managers' attitude to the local context. A concrete example referred to the company's closed and self-sufficient workplace. The head office of GSJN is a building complex which is located in a distant residential area without any commercial and service facilities. All the Chinese staff worked and lived in the same place as their apartments were next door to the office building. The company also had its own mess hall which uniformly provides three meals a day for all Chinese staff. In this sense, the environment of workplace automatically isolated the Chinese group from the outside world as the necessities of life were already supplied to them. Furthermore, Chinese expatriates have been tightly controlled during their entire period of working for the company. For example, the expatriate management rules require each expatriate to hand in his/her passport to the company for central depository unless an overseas trip has been approved by the relevant office. Expatriates are also prohibited to leave the company unless an application is submitted in advance and approved by superiors. The travel banning has even been applied to off-work and public holidays which essentially restricted expatriates' activities. In fact, expatriate managers do not intend to go out due to the severe control in personal expenditure.

Since expatriates' salaries are paid directly in Chinese Yuan in their domestic (Chinese) bank account, only a tiny and fixed amount (50 Ghanaian Cedi) is allowed for monthly withdrawal as pocket money (which can only cover for one shopping trip to the local supermarket).

Top managers explain this tight control as follow:

"*Safety assurance is always our priority, since most of our staff does not have a lot of experience in working abroad, it is important to pay extra attention to it, especially in African countries where the security level is lower than in China.*" (JN8)

More importantly, this military style has also been praised at the management level as one director stated:

"*It is our tradition and advantage, just like the old saying that unity is strength. In here we work as a collective and live as a collective, we are all far away from hometown so sometimes the collective is the source of power to overcome loneliness*". (JN12)

However, when this military based control system pervades in expatriate management, managers are not only prevented from contacting locals and even their personal space is severely restricted. Therefore, this form of personnel control could lead to complaints and negative attitude towards the company. This has been frequently corroborated during interviews, particularly amongst the junior management group, and even resulting in hesitation for job selection. As one manager complained:

"*I understood that the company's regulations were set for a purpose as the superiors expect everybody to be secure and protected in the foreign country… they (regulation makers) really take care of everybody and I appreciate it, however, I'd rather to work in China even I will be paid less simply because we have other concerns which can't be offset by money. Besides the long distance from hometown and family, or the communication difficulties, tedious local life and intensive working atmosphere have already been a burden for me.*" (JN17)

Moreover, his expression in a way explained expatriates' indifference to local contexts as he further commented:

"…sometimes I felt it is ridiculous that top managers instil the localization idea over and over again as we barely perceived the existence of local people or culture. Many of us think localization should be only the concern of the top level rather than us... when the company hasn't paid much attention to us and considered our needs locally, we really feel unwilling to respond to the higher request as we even have no intention to stay here for long time, let alone developing a dynamism or passion to consider local views."

6.6 Summary of empirical findings

This chapter provided the empirical findings of the case study, which can be briefly summarized as follows:

Firstly, budget control was largely absent in the company's rule setting. At the firm level, the budget was only mentioned by top managers, and was primarily used in a ceremonial way to comply with the government's political requirement and to underpin the payment of managerial fees to the provincial government. At the level of the construction projects, and although the use of budget is emphasized in project management, there were no rules designed to manage the budget process and 'engineering norms' remained as the political-led underpinning for preparing a project budget. While economic and political reasons have been acknowledged to explain this situation (e.g. underdeveloped local market for building materials in Ghana, China's need to increase exports), managers also stated the shortage in human resource and the managers' reluctance to change also resulted in the absence of budget control.

Secondly, cost control has been highlighted in the setting of management rules. As the representation of China's MEMS policy, the target costing technique was selected whereby three stages of cost control (ex-ante examination, in-process cost accounting and ex-post settlement) were designed by the head office to manage projects costs. However, the use of target costing in Ghana revealed several practical problems. While the efficacy of ex-ante examination was greatly restricted by the fixed price system derived from the 'engineering norms' policy, in-process cost accounting has also been criticized by managers because of the excessive reporting system, strict surveillance on managerial expenses and fund usage, and centralized on-site construction management. The use of these mechanisms resulted in conflicts between different project managers and between the projects and the departmental levels, and also caused misunderstanding and dissatisfaction from the local manager's perspective.

Thirdly, an elaborate performance measurement and incentive system was designed in the case company, and it is notable that both the head office (GSLZ) and the subsidiary (GSJN) were involved in the setting of PMS rules (GSLZ for financial performance, and GSJN for managerial performance). The quantitative indices for measuring the subsidiary's operating performance was solely developed by the GSLZ, whereby a quasi-CRS form of performance measurement, as a replication of central government's standards for SOEs, was imposed in GSJN. This simplistic approach over-emphasized short-term financial indices; as a result it influenced the efficacy of GSJN's diversified operations in a long run, and also led to the change in market positioning (low-end construction project) and manipulations (in annual financial report). While the qualitative managerial performance part of the PMS independently designed by GSJN, it was also open to debate since to a large extent, project management performance was the major object for assessment, whereby other parts of the company's business (diversified operations) were overlooked in performance measurement. The specific design of the measurement indices was also problematic since many key indices were exclusively result-oriented, vague and arbitrary. Consequently, subjective judgement overwhelmed the PMS in real work, in which superior's personal evaluation played a dominant role.

Lastly, the idea of localized management, as a bottom-up innovation, was applied in GSJN's management control practices to improve the company's coordination and cooperation with local managers and staff, and also in addressing practical difficulties with diversified operations and a shortage of human resource. Localization was mainly reflected in GSJN's human resource management and expatriate personnel control. Firstly, the localization of construction workers relied on a special method namely 'local manages local', by which construction efficiency was improved by delegating certain control power to a local ‘middleman’. However, dissatisfaction and misunderstanding were noticed from the local manager’s viewpoint when this method was applied to the management level. Ghanaian managers argued that the idea of ‘middleman’ isolated them away from major managerial activities and also blocked mutual communications, leading to biased judgement, lack of motivation and trustworthiness. Secondly, although specific training and managerial rules were designed to instil the idea of localization to Chinese expatriate managers, in practice localized management had been perceived to be rather superficially, with an exclusive focus on maintaining relationships with local government bodies. The idea of localization has even been treated perfunctorily by Chinese expatriate managers since the military based personnel control made manager feel disconnected and contradict to the local context.

The above lists key findings of MCS design and use in International GS. As an overview, a conspicuous top-down mode has been discovered at the MCS design stage. Standardized managerial rules were firstly prescribed by head office (GSLZ), which is then imposed onto its overseas subsidiaries’ budget, costing and PMS. However, although it was initially proposed that the MCS design was largely consistent with China’s economic and SOE reform policies, it becomes clear that divergent ideas were always implied in MCS design which shaped the company’s managerial rules. Table 8 shows a comparative summary of the similarities and differences between the design and use of MCSs. By including International GS’s development history as a comparative reference, it was found such divergent ideas and notions were largely drawn from its previous stages of development. Some compelling examples are the impact of ‘Cheng Jian Zhi’ on construction management and how ‘engineering norms’ interplayed with project budget and cost control.

Furthermore, when expanding the research to a broader societal realm and placing the case findings within the context of China’s economic reform, the coexisted and somehow conflicted notions and ideas within International GS’s MCS to a large extent reflected the recursive progress of economic reform in this very country. In other words, the policy makers’ ‘hesitation’ was revealed through the on-going progress of economic reform in which the contradictory notions of liberal market and state control has been always intertwined and mapped onto the specific company’s MCS design. Hence, due to the fundamental differences between the two streams of ideas, conflicts at implementation stage were inevitably generated, leading to variations in managerial practices.

Table 8 Comparative summary of MCS design and use for overseas operation

Themes of MCS	MCS Design (GSLZ)	MCS Use (GSJN)
Budget Control	Firm level: no specific budget rules.	Ceremonial use, budget only made by top managers and only used for managerial fee payment.
	Project level: no company-specific rules, political-led engineering norms as the benchmarks for project budget.	Comply with engineering norms, relying on material export and government cooperation to avoid budgetary problems in Ghana.
Cost Control	Detailed set of rules for three-stage target-costing: cost estimation, cost accounting, cost settlement.	Overemphasis on in-process cost, excessive reporting mechanisms, strict surveillance on expenses, centralized on-site cost allocation (Cheng Jian Zhi).
PMS	Financial performance: quasi-CRS form, overemphasis on short-term indices.	Changing market position (low-end) and manipulating financial report for achieving the indices.
	Managerial performance: authorizing overseas subsidiaries to make their own indices.	Exclusively measuring project management while ignoring management for diversified operations.
		Result-oriented, vague and arbitrary indices, relying on superiors' subjective judgement.
Localized Control	Not designed by GSLZ (GSJN's own innovation).	Human resource management: 'local manages local', 'middleman', unidirectional communication.
		Expatriate control: exclusively focusing on maintaining relationship with local government, military-led personnel control.

Findings in GSJN showed that managers have perceived the inconsistency within the company’s rule setting. There is reluctant and nominal use of rules and practices in the real workplace, which in turn appears to severely diminish the effectiveness of MCSs. However, an unexpected finding in the field of GSJN showed that although complaints about the problematic rule setting was prevalent; it has not led to great resistance. In contrast, managerial rules have not only been strictly followed, but their legitimacy was also reinforced as the 'knowhow' of management improvement, whereby even using coercive means to emphasize compliance to rules was still accepted and appreciated.

This does not mean that GSJN was exclusively a passive receiver. In fact, practical variations emerged for each of the control systems which reflected the managers' contingent response to conflicts at various levels. On the one hand, some variations were proposed to achieve coherence with the prescribed managerial rules. For example, military-led on-site construction cost control, and the moral-driven subjective performance measurement could be recognized as flexible complements to the stated rules, which may mitigate differences between head office and subsidiary, as well as manage conflict of interests within GSJN. On the other hand, GSJN's dynamism was more visible in considering its own interest in the local context. As a strategic response to address the company's human resource shortage and to meet local demands, the localization of management had been initiated to underpin the company's management practice.

However, although this control mechanism was completely a bottom-up creation, its implementation somehow has been restricted by and even collided with certain intrinsic notions. Apart from the persistent military control mode in expatriate management, the advocacy of the 'local middle man' and the maintenance of government relationship, to a large extent indicated that the divergence in notions were not only manifested in organizational or societal level, but also reflected deeper in managers' inherent cognition, values and culture.

In the next chapter, in-depth discussion will be provided in order to explore and explain the regulative, normative, cognitive and cultural implications which embedded in the empirical findings.

Chapter 7: Discussions - Case Findings and Three Pillars of Institutions

Based on the brief summary, it is fair to state findings in the International GS demonstrated a quite intricate and complex storyline. Various conflicted but coexisted ideas and notions permeated in every aspect of the company's management, which subtly impacted on managers' inclinations and behaviours in MCS design, implementation, problem solving and decision making. The situation become more complicated since the ideas and notions per se were derived from different layers ranging from the very macro end of societal and economic effects to the particular micro level in terms of people's cognitions and values. More importantly, those ideas and notions mutually interact to form specific belief systems and cognitive maps used by managers in their daily managerial practices.

Based on the previously proposed skeletal framework (Figure 3), a refined analytical framework (Figure 6) has been developed to classify and incorporate the research findings into different factors within the three pillars of institutions (Scott, 2013). The following part of this chapter will discuss the research findings under the analytical framework.

7.1 Regulative order

As the most frequently underscored aspect of institutions, regulative order is normally associated with the constraining and regulating function of social and human behaviours, of which its influence is mainly realized through the establishment of rules (Scott, 2013). It is apparent that rules, as a symbol of regulation, was not only involved, but also stressed in the particular case company. The most prominent example is compilation of the managerial manual which prescribed detailed rules for almost every aspect of the company's management and operating activities. However, at the beginning of a complete regulatory process, rule-setting needs to be complemented by monitoring and sanctioning activities, and the latter usually implies coercive mechanisms (DiMaggio and Powell, 1983, Scott, 2013). In other words, in an attempt to enforce regulatory influences on future behaviours, inspections on actors' conformity to formal rules are necessary, and punishments are also applied to address rule violations (North, 1990; DiMaggio and Powell, 1983).

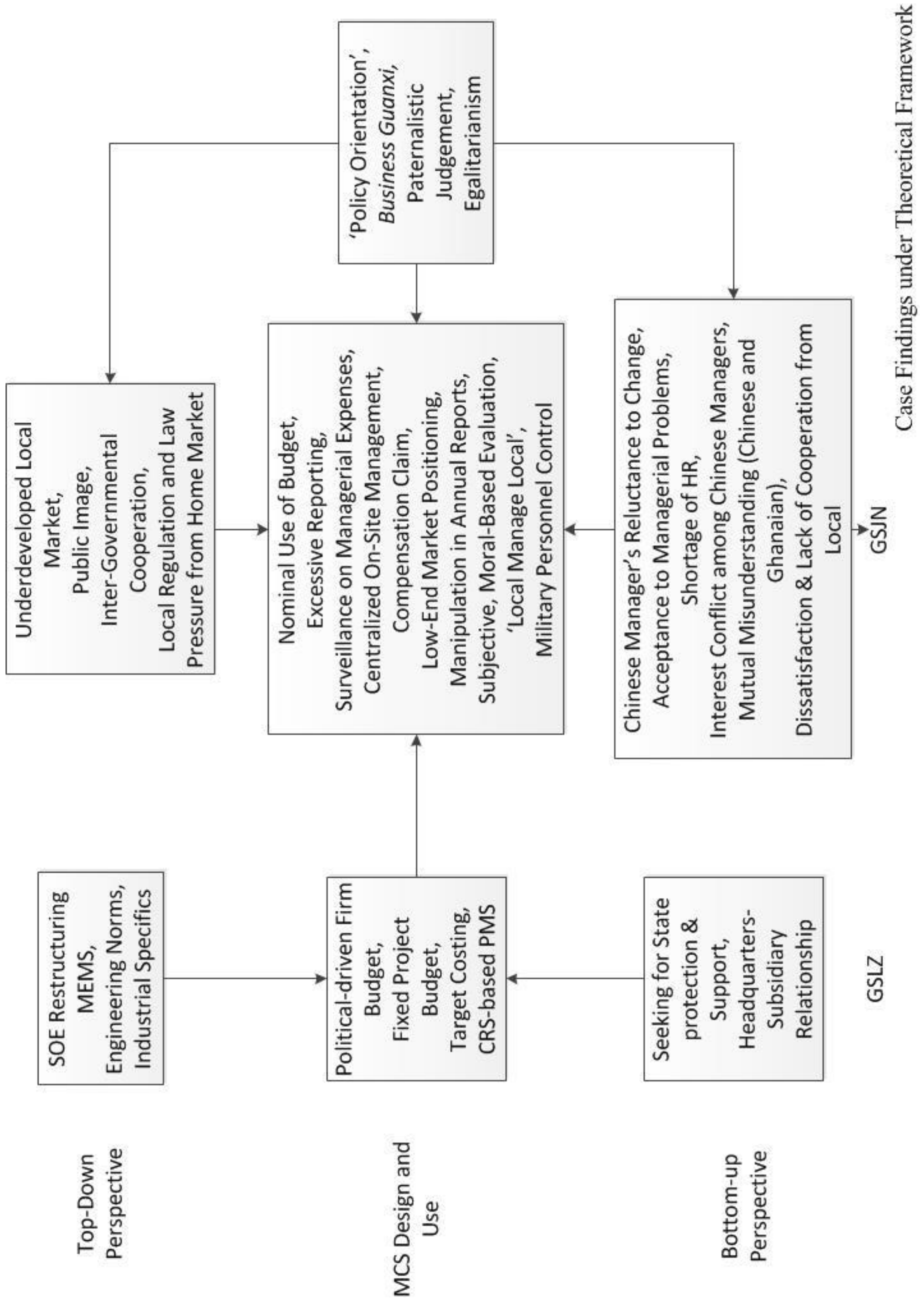


Figure 6 Case findings under theoretical framework

From the perspective of MCS use, findings from GSJN showed that various monitoring mechanisms have been proposed to ensure conformity to the prescribed managerial rules. Some manifested instances include the timely report of project funds and managerial expense usage; routinized meeting for overseeing progress of central cost planning; strict internal inspections on construction safety, quality and methods; and military based expatriate control. Moreover, all of the results generated from monitoring mechanisms have been associated to individual actors (managers in this case) through managerial indicator-driven performance measurement, whereby pertinent sanctions or rewards were able to be applied to ensure future conformity to rules. However, the findings also indicated that this intra-organizational regulatory system has not been conducted in a smooth way, but quite a few criticisms, complaint and dissatisfaction were found in GSJN's management practices, which in turn undermined the efficacy of rules.

Nevertheless, from the top management's perspective, especially at the head office level (GSLZ), compliance to rules and regulations was not merely imperative, but a fundamental factor determining the company's restructuring process and future development. As quoted that:

"*…a managerial transformation from 'rule by man' to 'rule by institutions' is the cornerstone for establishing a modern, market-oriented enterprise which is unshakable as the direction of efforts. Correspondently, managers should recognize current managerial incompatibility as temporary difficulties, which are able to be resolved along with the on-going improvement of the rule system.*" (LZ4)

While the company's rule makers coercively pursued the regulatory based management and control systems regardless of practical conflicts, this implied that their insistence and force have to be underpinned by certain robust logics and powers. Scott (2013) identified that the regulative pillar is always supported by a twofold instrumental logic. On the one hand, "*individuals conform to laws and rules because they seek the attendant rewards or with to avoid sanctions",* on the other hand, "*those who make laws and rules believe their interests would be advanced and embodied in their crafts*" (p.62). For the rule makers within the case company, although they clearly claimed that developing a 'modern, market-oriented enterprise' is the key reason for using coercive means, it is difficult to completely attribute their actions to this very reason. In other words, if expanding the inter-organizational regulatory process to the broader societal and political level, it is fair to state that rather than a fully spontaneous organizational activity, the idea of 'developing market-oriented modern enterprise' was greatly driven by the SOE restructuring policy enforced by political authorities and supported by the State's coercive power. Therefore, the organization's rule makers played a dual role under this external pressure. Whilst they exerted forces to enact a rule making process within the organization, they also behave as conformers since their use of force were justified - either implicitly or explicitly - by the pre-existing state rules (Scott, 2013).

Various facets of the collected data have revealed the managerial compliance to the coercive power of the State. Essentially, the establishment of International GS as an independent overseas corporation was greatly driven by the 'open-up policy' which represented the State's current interest in economic reform progress. The complete set of managerial manual for overseas operation has not been compiled until the MEMS policy was imposed upon the construction industry during the 'National 12th Five-Year prospect (2011-2015)'. From the perspective of the organizational structure, the CCP identity of the members of board of directors has not only represented the SOE nature of the company, it also indicated that political directions, along with the underlying state coercion were always put in the primary position. In this sense, rather than recognizing the logic of company's rule setting as a part of the marketization reform, it is more like a rule makers' rational choice in which their self-interest would be retained without accepting sanctions from the State. As the general manager of GSLZ stated:

"*Our company (International GS) is the representative provincial SOE in Western China and we are always being the focus of government. Therefore, we need to ensure that the company is operated in line with governmental policies, since as the managers of the company, and the members of the CCP, this is the main criterion of assessment.*" (LZ1)

The involvement of coercion represents as an important function of the State in regulatory institutionalization (North, 1990), because by acting as a neutral third party with higher authorities, the State could enforce the rules and regulations to be agreed by the parties involved (Scott, 2013). However, attention have also been called to a potential problem that the third parties are not always neutral, contrarily, "t*he State develops its own interests and operates somewhat autonomously from other societal actors*" (Scott, 2013. P.62). Based on the elaboration of China's economic reform progress, along with the findings from the case company, one can argue that this problem is quite articulated in the Chinese context as intertwined and even contradictory state interests are always implied in the regulatory process.

While the idea of liberal marketization has been greatly cultivated through China's political enforcement, the alternative and antecedent notions of state control and planning have also been retained and reinforced, which is especially manifested in the regulative aspect of SOE restructuring. A compelling example refers to the surveillance from SASAC and NDRC to the security and safety of national assets and investment in SOE enterprises. For the specific case company, a series of strict rules have been added to the managerial manual as the response toward the higher authorities. However, because those rules circumscribed the boundaries for fund usage and prescribed managers performance measurement, to a certain extent they were confronted to other market-based managerial rules, which in turn led to practical problems such as the nominal corporate budgetary system in GSJN.

From the perspective of overseas operations, another pair of contradictions has been found in GSJN's cost management. Because the company was given political instructions to create opportunities for Chinese construction material export, its procurement were largely dependent on domestic market with fixed governmental referential prices. Therefore, although target costing were formally enacted as a standard procedure, the rules for cost estimation stage have been overlooked in the local market. Therefore, while the company intended to comply with the State's coercive power, its rule setting was actually determined by both market and planning-led logics. Due to the contradictory and competing nature of these logics, incompatibility was inevitable revealed in the rules and practices. In this sense, it is quite challenging to assert that the company's entire regulative process was for improved management and operation, or merely a mechanism for maintaining or gaining legitimacy.

Moreover, the regulatory process may become more complicated as the case company operated in a multinational setting, in which they not only confronted coercive power from home country, but also the pressure from local authorities. Therefore, the question is how these regulative institutions function in management practices or sustain legitimacy when they confront with different interests, powers and contexts. As Scott (2013) argued "*institutions supported by one pillar may, as time passes and circumstances change, be sustained by different pillars*" (p.62). Hence, we move to the normative pillar and discuss how regulative institutions interact with the other elements.

7.2 "Disguised" normative order

Aside from the direct political enforcement, the design and use of MCSs in International GS has also been imposed, either in constraining or enabling way, by the development of normative requirements. The most persuasive example refers to as how the 'Cheng Jian Zhi' – an 'organic unit' based management mode gradually transformed into the modern project-based control system in the case company. Recalling the development course of construction project management in construction industry, it showed that although the idea was introduced in 1986 as an 'advanced managerial example', it has not been formally and extensively implemented until 1998 when China was applying for the entry into the WTO. In order to cope with the competing market arising from the relaxed political restrictions for foreign investment, joint ventures and increased international cooperation, it was imperative for construction companies to be adopt a set of universal project management approaches, which not only represented advanced management modes, but also relied on globally-recognized professional standards in terms of open bidding regulations, third party supervision mechanism, and project management responsibility systems.

Those cross-national demands (and of course pressures) exerted even more impact on International GS as their main operations are conducted in overseas markets. As the general manager of GSJN described that:

"*Ghana follows the western way in legislation, political and economic systems and management modes, therefore, we have to adopt and keep corresponding approaches and rules in managing our project even if there is no effect on our real work. Our qualifications were examined by the local owners, governments and professional third parties. The establishment of project management system is an accredited means which improve locals' acceptances to our company, and it is also a specialty language for communications.*" (JN2).

This manager's opinion, although not mentioning the effectiveness of such management approaches, reflected the essential indication of how normative institutions function in organizations – as quoted that "*organizations acquire accreditations and certifications from standard setting bodies, by which their cognitive base and legitimation are able to be established* (DiMaggio and Powell, 1983; Scott, 2013, p.74)". When DiMaggio and Powell (1983) exclusively identified professionalization as the source of normative institutions, they explained such institutions as shared values generated from a collective struggle of members in various professional groups. In this sense, to large extent normative institutions were revealed as powerful but independent forces which could even collide with regulative ones. However, in the specific case company, or even the broader Chinese context, the relation between regulation and professional norm is often showed to work in compatible ways where the latter was always subjected to the former.

In Chapter 5 (section 5.2), Construction Project Management Committee (CPMC) had been briefly introduced as an influential professional body in China's construction industry. However, by reviewing its development progress, it is fair to state that the activities and capacities of this institute were greatly supported and directed by coercive powers derived from ministries and commissions subjected to the State Council. For example, the establishment of CPMC in 1992 was driven by the MOHURD's (Ministry of Housing and Urban-Rural Development) policy of conducting tentative project-based construction management in pilot enterprises. From that time, CPMC's affiliated relation with MOHURD continuously remained. Although CPMC made great efforts (industrial surveys, case studies and special academic seminars, several rounds of nationwide negotiations and discussion with practitioners, and close partnerships with international associations) in improving the mechanisms and theories of project management, their initiatives were constrained by the 'instructions and suggestions' from government authorities. When the compilation of 'construction project management standards' was finally accomplished by CPMC in 2000, it has not been recognized as the industrial standard until 2002 when MOHURD formally enacted it as an official document.

The development of project management is merely one of the few examples of how political forces are latently involved in the normative processes. For the specific case company, these interactive pressures are also revealed in other aspects of MCS rule settings. On the one hand, the introduction of PMS system, as a sign of seeking advanced, internationally-recognized management approaches, indeed broke down the old-fashioned notion of equal distribution from the planned economic system, whereby managers' motivations were greatly enhanced and so they were more willing to take responsibilities to develop the company. On the other hand, it is also noticeable that managers were only allowed some 'limited freedom' because the indicators and benchmarks for measurement to a certain extent were still in the hand of the State, therefore, state controls still applied even when coercive forces were not present.

The particular interaction between regulative and normative processes under Chinese contexts indicated that it may not appropriate to discuss how those two institutional pillars separately functioned in the case company. In response to DiMaggio and Powell (1983)'s normative isomorphism, Scott (2013) proposed that the significant role of the normative pillar was reflected in the way in which it provided a buffer so that the regulation-based coercive pressures could be embodied and complied with. In other words, *"the diffusion of new forms and procedures was more responsive to the spread of norms carried by professional networks than to changes in regulatory policies*" (Scott, 2013, p.161). Therefore, managers recast policy-induced structures as a call for efficiency so they could codify and enforce their proposals into softer yet law-like rules. As a result, governmental-like rules were replaced by 'governance systems' such that regulatory pressures were disguised into normative ones.

While this argument elaborated on the interdependent nature of the two pillars, it must be founded on a premise which is described as the ‘strength of a weak state’. That is to say organizations are able to actively participate in the meaning of compliance, as the role of state is overshadowed and gives way to a market rationale. Clearly, this premise is unlikely to be applied in China where the government’s authority is still an overriding one. However, as seen in the case findings, rather than being downplayed, increasing attention has been paid to formulating normative institutions with the State playing a leading role. In this sense, it seems the conception of normative pressure also needs to be expanded to understand the underlying logics behind the particular normative process in China, or more straightforwardly, what the State expect from the process when it seems to conflict with its own interests.

From a broader societal perspective, Scott (2013) defined normative rules as the “*prescriptive, evaluative and obligatory dimension into social life*” (p.64). Unlike DiMaggio and Powell (1983) who emphasized the ways of generating normative institution, Scott’s definition focused on its nature, process and influences on social life in terms of organizational activities. More precisely, the normative system is constituted by values and norms. While values represent collective goals or objectives that shared and preferred by the members of the collectivity, norms designate appropriate ways to pursue them. By combining both parts, normative system indeed provides prescriptions which reflect other salient actors’ expectations to focal actors.

According to the case company, the broad argument mentioned above can be specified as the State (the salient others) who expected marketization (value) can be prescribed in International GS (focal actor) through advanced management and control mechanisms (norm). However, this brief analogy is not able to explain whether the normative system is more efficient than regulatory means in organizational changes since both ways can be identified as external pressures. The conception of ‘appropriateness’ has then been proposed as the underlying logic which not only differentiated the normative institutions from regulative ones, but also represented its superiority to the latter in empowering social actions. The ‘appropriateness’ refers to that actors would more easily to internalize normative pressures because they would identify the values and norms as social obligations. In other words, actors recognized it is appropriate to accept normative process because it represents “a matching of a situation to the demands of a position” (March and Olsen, 1989; Scott, 2013). Quoting Scott’s statement (Scott, 2013, p.65), “*the central imperative confronting actors is ‘given this situation, and my role within it, what is the appropriate behaviours for me to carry out?*’, rather than an instrumentally based logic questions ‘*what choice is in my own best interests*?’”.

The concept of appropriateness sheds a light on understanding China’s government intentions for influencing normative institutionalization. More precisely, as can be seen from the failure and problems in the early stages of economic and SOE reform, it is fair to state that blindly stressing on regulative coercion is not the optimal way since severe conflicts of interest would easily occur as seen in the case study. Alternatively, incorporating political interests into normative process may mitigate the conflicts since values and norms can be gradually internalized by companies and practitioners in terms of being things they are supposed to do.

In the previous discussion of the regulative pillar, it was shown how the market and planned economy orientation simultaneously formed the interests of the State, which in turn complicated the MCS setting in International GS. Similarly, when state interests were involved into the making of normative meanings, contradictory ‘planned-economy’ ideas have also been revealed in the operation of MCS. For example, the PMS included performance indicators and benchmarks which were restricted by governmental guidance, and the mixture of values has also been reflected in other aspects such as fixed engineering norms in project budget system, total planning approach in target costing control, and quasi CRS based incentive mechanisms in corporate performance evaluation. A more surprising finding is although those conflicted rules indeed generated quite a few problems in implementation and attracted considerable amount of complaints from various management levels, to a large extent they still remained as the default, or so to say, ‘appropriate’ way of doing things. These findings in a way echo Scott (2013)’s argument that the normative process is able to generate deeper belief systems than regulative pressure. In other words, whilst values and norms from different roots are interacted within the process, a unique normative order could be formed and used by the case company as the means for acquiring legitimacy.

It is also necessary to explain what strong feelings were evoked within the process supporting focal actors to engage in this normative order. Scott (2013) stated that unlike regulative force which associates with the fear of the legal sanctions, the strong feeling supported the trespassing of norms is "*a sense of shame or disgrace; for those who exhibit exemplary behaviours; and feelings of respect and honour*" (p.66). While all of these measurements are emotional and stress on self-evaluation, the legitimacy of normative institutions are morally governed (Selznick, 1957; Stinchcombe, 1997; Scott, 2013).

Based on case findings, it found that this kind of moral emotion was revealed by interviewees in various forms. For example, when talking about the incompatibility of market and planned notions in MCS rules, the deputy manager stated that:

"…*perhaps a total market based approach has many advantages, but being a SOE, we also have other concerns that cannot allow us to completely copy western styles or be exclusively measured by financial indices.*" (LZ3)

The SOE identity has further been respected and privileged according to some expatriates, as one director in GSJN argued that:

"*Although the company has become more and more professional, we still don't want to lose our SOE identity. It is not only for gaining acceptance by the State, favourable policies and more opportunities for inter-government cooperation. When working in abroad, we need to remember that we are not only representing ourselves, but also the image of the country behind us.*" (JN8)

Correspondingly, when the shared norms were violated, the sense of shame revealed. As quote a project manager's talk that:

"…*military management is our spirit inherited from the most difficult period of the company, it represent our discipline, diligence and unity. However, local employees don't feel in the same way. Although we understand the differences of culture, custom and values, it is still seen as a lack of responsibility in the workplace.*" (LZ16)

Based on those comments, it is manifested that when normative institutions become embedded, emotions provide powerful inducements for compliance. In this case, the instrumental logic of efficiency, functionality or profitability behind the MCS rule setting and use, even if not omitted, has been greatly overwhelmed. The SOE identity, along with its ‘planned’ norms played a prominent role as the “*deeper commitments that express one’s enduring loyalty to the purpose that lie behind doing the job in the first place*” (Selznick, 1957, p.101; Heclo, 2011).

Several arguments are likely to be made based on the discussion about the case company’s MCS rule setting under regulative and normative processes. Firstly, regulatory power, especially the coercive force of the State greatly impacted on the company’s MCS rule setting. However, due to the conflicting but competing state interests, enforcement has been exerted in contradictory ways which partially led to MCS problems. Secondly, while the developing domestic professional bodies and global normative pressures improved the company’s MCS in a normative way, the state involvement within the former successfully embedded its various interests and demands into the normative system. More precisely, a kind of “disguised” normative order is formed which successfully associates state intentions to individuals’ emotions and their feeling of appropriateness. As a result, state control still remained without applying coercive forces or facing severe interest conflict between different levels. Thirdly, based on the second point, the boundaries between regulative and normative orders have been blurred in the specific Chinese context. While China embraced a widely different type of political, societal and ideological systems from the western capitalism based countries, the premise of independent normative process – ‘the strength of a weak state’ is not valid. The situation of transferrable institutional orders (Scott, 2008; Loundsbury, 2008) is very likely happening in China, even in an intentional way. Lastly, the case findings of managers’ responses indicated that the former regulative mandate is able to be internalized as actors’ appropriate and desirable behaviours through the interactions among institutional pillars. This is consistent with Scott’s (2013) view that institutions supported by one pillar may, as time passes and circumstances change, be sustained by different pillars.

7.3 Cognitive-cultural order

The above arguments uncovered the implicit state controls and interests within the interaction between regulative and normative institutions, which greatly influenced on the case company's MCS design. However, case findings also suggested that while rules were imposed to GSJN, MCS routines were revealed in many forms and reflected managers' various views and ideas, in which not all of them were consistent with the existing rules. Therefore, a comprehensive understanding of the company's MCS development is not complete if one only focuses on the external effects derived from regulative and normative powers.

7.3.1 Managers' interpretation in the use of MCS

The divergence between rule and routine actually reflected the most debated topic in institutional-based organizational studies - the tension between institution and agency - which argued that power is not exclusively a top-down process (from institutions), but also could be generated from bottom-up phenomena (from agents). Since institution and agency have often been recognized to imply an antinomy between control and freedom, the latter has been particularly emphasized in institutional-based management and accounting studies, which seems provide a better way to embody the potential of managerial autonomy in organizational activities (Moll, Burns and Major, 2006).

However, although the two sources of power are showed as opposite ideas, as Scott (2013) stated, it is inappropriate to ask researcher to 'take sides' in terms of privileging one compared to another. The specific case findings corroborate this argument as the company's managerial routines were often conflicting but simultaneously existed. In other words, while some of the routines have been conducted in irrelevant or even confronting ways, others indeed positively responded to the rules. More importantly, all of these routines have remained as acceptable and even reinforced to avoid changes. Therefore, it can be argued that influence from the two sources were interrelated and interpenetrated, by which a shared conception was generated allowing routines to 'work together'.

Herein the cultural-cognitive pillar would find its articulation in exploring what were the shared conceptions implied in the case company's MCS routines. But primarily, it allows insightful ideas to explain where the conceptions come from, or more specifically, what determined the interactive process between the two kinds of power. In Scott's explanation, those conceptions were generated from the cognitions of human existence, which functioned as individual's internal representation of his/her environment (d'Andrade, 1984; Scott, 2013). The introduction of cognitive paradigm provides a holistic insight for explaining actions, in which the objective conditions would not be exclusively function but also involves the actor's subjective interpretation of them. Therefore, the power from external institutions and agency's activities would blend as the shared conceptions indeed reflected "*a collection of individuals' internalized symbolic representations of the world*" (Scott, 2013, p.94). In this sense, in order to theorize the focal case findings, 'managers' should be recognized as interpreting actors between the MCS rules and routines, by which their actions could be explained as "*using existing rules and social resources as a repertory of possibilities for constructing strategies of action"* (Scott, 2013, p.210).

In order to explain how managers' interpretations work in the case company, one should firstly compare the rules and routines based on the findings in GSJN. From the perspective of cost management, it is manifested that while the target costing approach was systematically prescribed as rules, it has been selectively and purposefully used in workplace. On the one hand, managers strictly complied with in-process cost accounting rules, by which routines for monitoring and reporting the use of material, equipment and expenses were particularly stressed under the central planned cost allocation system. On the other hand, the ex-ante cost estimation, as the premise for a complete target costing system, has been omitted in real work. Although the omission has often been ascribed to some 'practical barriers' in terms of underdeveloped local market and a lack of professionals, it indicated that managers mediated their practices with the broader state interests behind the rules. In other words, in order to facilitate domestic material export, 'fixed engineering norms' was intentionally remained as the base for cost calculation. Although the mismatched costs largely affected the company's efficiency in local market, rather than making changes to rules, managers preferred to adopt alternative routines by claiming engineering compensations after the completion of projects, even if it was not efficient, time-consuming and unwelcomed by local clients.

A similar pattern has also been found in managers' interpretation of PMS rules in real work. While the quasi CRS was merely a political guidance rather than an imposed means, it has still been rigidly implemented as the only way to measure corporate performance. Again, although managers complained that it excessively stressed on financial outcomes, they had no intention to make changes. In contrast, in order to accomplish arbitrary financial targets, the company's operational strategies have even been modified to carry out low-end projects. Similarly, from the perspective of diversified operation, the so-called objective of 'long-run development' was overwhelmed by the need to seek instant economic benefits. As such, managers merely treated these operations as alternative sources for making up the total financial target indirectly enacted by Chinese provincial government.

However, there were also some exceptions where the company's MCS routines which were not in compliance with the rules. Findings from the GSJN's accounting department revealed that in order to smooth the following year's financial targets assigned by the head office, income and expense allocation could be strategically manipulated in the internal annual reports. On the aspect of managerial performance measurement where managers have high autonomy, subjective judgement and moral virtues have been used as a supplement to the rules for performance evaluation. These practical variations revealed managers' subjective activities in constructing actions, as their decisions were made on certain rationalities rather than a passive reflection. In other words, it showed how managers were able to respond to rules in a strategic way.

Moreover, while the concept of localization has been cultivated as the base for any MCS routines in GSJN, it was mainly supposed to solve the shortage of human resource, obtain support from local government and industries, and clear up misunderstanding with local people. Therefore, as a complete bottom-up innovation, the use of localized management further suggested that individuals not only responded to rules and their underlying institutional demands, but also to the surrounding environment and various resources involved in it. In other words, both the institutional and technical pressures have been simultaneously included in the actors' interpretive process (Loundsbury, 2008; Scott, 2008).

While routines were quite contradictory, and yet they co-existed in the case company, it seems challenging to ascribe managers' actions to particular frameworks. In other words, the findings may confront with the view which described individual activities in the relation between institutions and organizations as seeking for legitimacy, isomorphism or decoupling (Meyer and Rowan, 1977; Meyer and Scott, 1992; DiMaggio and Powell, 1983). MCS rules have been greatly complied in management routines but they were not just used in ceremonial ways for obtaining legitimacy or acceptance from outside. In contrast, rules have substantially affected the company's normal operation as they represented the main source of managerial incompatibility to the local market. Moreover, while Meyer and Rowan (1977) proposed that individuals' activities are often decoupled from formal structures when they see the "*local demands for efficiency of performance may conflict with external pressures for conformity*" (Scott, 2013, p.185), this idea was not applied in the case company. Although managers actively responded to the problem, they developed routines either for reinforcing the conformity to the rules, or seeking remedial measures to the rule problems, none of which showed their intentions to depart from the rules even when efficiency problems become manifest.

This specific type of actions complement literature on management accounting change where it argued that practical variations could be made when actors experienced contradictions and conflicts from external pressures (Burns and Scapens, 2000; Dillard *et al.*, 2004; Hopper and Major, 2007). Findings in GSJN showed practical variations may not exclusively be generated for changing extant rules, but they also acted as a 'shield' by which the existing formal rules could be maintained (e.g. after-project compensation claim as the remedy for the problematic target costing system). In this sense, managers' interpretations between rules and routines in the case company were greatly consistent with a 'loose coupling' pattern (Buckley, 1974; Weick, 1976) - a realization that "*organizations contain elements that are only weakly connected to others and capable of fairly autonomous actions*" (Scott and Davis, 2007, p.93; Lukka, 2007). In this case company, it seems that managers recognized the loose coupling as the solution for ensuring the company's MCS remained functional, by which their interpretive process was able to find its rationalities. More precisely, they would make great efforts to be tightly coupled with rule systems in the first place, as it represented managers' intention to be aligned with the underlying state interests. When the rule system was ambiguous because of interest conflicts, or the conformity was incompatible with local situations, alternative routines were made as the result of managers' modest autonomous actions; however, those routines were quite flexible which had the capacity to smooth the frictions of rule systems without causing any major changes (Lukka, 2007). Besides the above mentioned compensation claim, seeking for inter-governmental cooperation in construction project would also be a pertinent embodiment of 'loose coupling', since the subsidiary's profitability was addressed by this action without breaking the governmental rule of 'engineering norms'.

However, while the loose decoupling may be a solution, it could also be a problem depending on the perspective of the evaluation (Lukka, 2007). This approach may mitigate the conflict between rules and routines, but it is rather a compromise as conflicts still exist, which quite likely would lead to organizational insufficiency in a long run. Besides the above mentioned operational difficulties in terms of mismatched cost allocation, inefficient compensation claim and short-sighted diversified operations, problems have also been found inside the company. Subjective performance evaluation tended to lead to an autocratic managerial mode which affected managers' motivation. Localization has not yet been understood as the militarized-led expatriate management and tendentious local personnel strategies aggravated people's reluctance to the new ideas. Therefore, it is necessary to explain why managers insisted on their current rules and routines, or more specifically, what kind of rationality implicitly underpinned the loose coupling pattern. In Lukka (2007)'s explanation, loose coupling represented actors' rationality-in-action, as the contrast to pure rationality in terms of the utility maximization. This kind of 'rationality' suggested managers are running organizations in pragmatic way as they cannot make sure that coherence and logic will always lead to good results, by which loose coupling was showed as managers 'wisdom' in dealing flexibly with different kinds of pressures around the organization (Searle, 2003; Schatzki, 2001; Lukka, 2007; Lynch, 2001). However, although this viewpoint to a certain extent revealed the complex and restriction of people's rationality, it was a quite vague statement which failed to answer an essential question - what dose account for the flexibility or 'wisdom'?

7.3.2 From individuals' cognitions to shared conceptions

The 'flexible rationality' indeed echoed with Scott (2013)'s cultural-cognitive explanation as individuals' interpretation eventually reflected in certain shared conceptions - which defined as to "*constitute the nature of social reality and create the frames through which meaning is made*" (p.67). Based on the above discussion, 'policy orientation' could be identified as the embodiment of shared conception that implied in managers interpretation in the case company. While the discussion of interactions between regulative and normative powers uncovered the implicit state interests and control, 'policy orientation', from a bottom-up perspective, further explained that rather than external pressures, maintaining state interest and control could be a taken-for-granted logic which drives managers to conduct MCS rules and routines as the way they are.

The manner of 'policy orientation' would be straightforwardly manifested as how rules were designed to closely associate with political instructions, and how routines were subsequently developed to maintain the rules. However, it could also be very flexible as managers as interpreting actors are neither passive nor reflective; therefore the implicit meaning suggested managers' adaptability in tactics. In other words, when the state interests per se were already 'stuck in the muddle', alternative routines were pragmatically conducted as 'moderation' other than 'solution', by which a violation to policy was allowed but should be controlled in acceptable level. Moreover, it is notable that in International GS, 'policy orientation', rather than an obscure topic, was overtly recognized as the reasonable mode for operation and management, just as one director of GSLZ stated that "*instead of saying that we are doing business, we actually researching on policies.*" (LZ8). Therefore, because the conception was shared and commonly endorsed, practical problems were assumed to be tolerated, and the complaints were unlikely to lead to resistance as long as the macro political direction was aligned.

7.3.3 Shared conceptions within a cultural framework

The above discussion explicitly illustrated that the MCS rules and routines in the case company were developed in a loose coupling pattern, which was resulted from the shared conception of ‘policy orientation’ representing manager’s interpretation of their cognitions. However, the following question is what determines managers’ cognition. At this point, one need to unfold the cultural perspective of Scott (2013)’s explanation, whereby the most essential view refers to the point that although individual’s cognition may be fragmented and loose; it is not discretionary but shaped by external cultural frameworks. While culture was recognized as a framework other than subjective beliefs, this unique viewpoint provides a new perspective for treating culture as symbolic systems which objectively and externally existed to individual actors. Therefore, based on Berger and Kellner (1981)’s summary that “*every human institution is a sedimentation of meanings in objective form*” (p.67), Scott (2013) proposed that cultural categories formed as the cognitive containers (Douglas, 1982) to provide patterns of thinking, feeling and acting, in which social interests are able to be defined, negotiated and competed through individuals interpretive process.

However, although Scott (2013) emphasized the importance of cultural framework in constructing social reality and defining social actors and actions, it is by no means to state culture is exclusively functioning. In contrast, it works along with regulation and social norms and collectively develops the various facets of social reality. More precisely, while regulative rules set a scene and social norms tell the actor how to play the scene, culture provides actors with a guideline so they understand the setting and what it all means. In this sense, cultural-cognitive elements were redefined as constitutive rules which create the very possibility of certain activities (Searle, 1995; Scott, 2013), or in other words, it operates at the deepest level of reality creation and formed the taken-for-grantedness within actors’ cognitions.

Based on this constitutive idea, the shared conception of ‘policy orientation’ in the case company actually represented as the manifestation and consequence of a cultural process. Therefore, the way in which MCSs were designed and used to be aligned with state interests and controls was not only legally sanctioned (by direct governmental regulations) or morally governed (by social obligations which were embedded through governmental manoeuvres), but also culturally supported as managers perceived the legitimacy of their actions can be achieved through compliance with ‘orthodoxy’ (Scott, 2013). This argument further facilitated the explanation of why managers insisted on their current management rules despite the practical problems. More precisely, when the logic of orthodoxy was manifested, the correctness and soundness of individuals’ actions were actually self-evidenced, whilst other types of behaviours would be identified as inconceivable.

From the affective perspective, actors could feel more confident and comfortable when they aligned themselves with cultural beliefs, otherwise the ‘unorthodox’ means would be regarded as ‘clueless’ or ‘crazy’ (Scott, 2013). A comparative example would provide more concrete explanation of how the constitutive feature and the logic of orthodoxy were rooted in managers’ behaviours. On the one hand, GSJN’s project budget system showed that it is possible that ‘policy orientation’ was based on certain instrumental or normative ideas. While the company’s capacities of local bidding were greatly restricted because of the fixed engineering norm, managers tactically looked for inter-governmental cooperative opportunities so they can avoid the open bidding procedure. In this case, their choices were largely based on its SOE identity as they were protected, supported and privileged by government policies and diplomatic convenience. On the other hand, while the idea of ‘research on policy’ was permeated into the company’s internal management and was exclusively emphasized as the mode for localization, it suggested that to a large extent ‘policy orientation’ has been transferred into an orthodox idea. Although other approaches in terms of increasing local recruitment and enhancing expatriates’ local adaptation have been proposed as certain top managers’ expectations, they were largely perfunctorily responded and overlooked in real work. Besides the structural and operational reasons, feelings of incompetence and disconnectedness were greatly expressed by managers which to a large extent resulted in their reluctance and misunderstanding to these alternatives.

7.3.4 Embedded characteristics of Chinese cultural framework

The cultural-cognitive idea facilitated us to recognize policy orientation as the representation of a cultural framework, which played in a deeper level of individuals' cognitions and guided managers' choices in practices. But more importantly, it also provided an opportunity to explain why this specific conception was able to be shared, which in turn shed a light on to re-examine the reasons for selecting certain particular methods as the routines in the case company. More precisely, while the case findings showed managers conceitedly ascribed their insistence on militarized management mode, moral virtue based evaluation and centralized planning as they carried forward company's good traditions, cultural-cognitive would explain that managers just blindly followed certain taken-for-grantedness within a cultural framework, which was unlikely to be realized by the performers themselves, because "*culture as constitutive rules are so basic to social structure, so fundamental to social life that they are often overlooked*" (Scott, 2013, p.78). In this sense, as the embodiment of culture at company level, policy orientation may not sufficiently unfold the full picture of cultural elements within individual's cognition. In order to understand the logics behind the managerial practices, a thorough explanation should be made on some more embedded cultural forms, which were described as "*culture congealed in forms that require less maintenance, ritual reinforcement, and symbolic elaboration*" (Jepperson and Swidler, 1994, Scott, 2013, p.68).

This argument could be especially applied to the case of GSJN since when the company operated in overseas market and included both Chinese and Ghanaian in the management, national cultural differences may be at play resulting in practical variations under identical MCS routines. In chapter 5 (section 5.1), paternalism and *Guanxi* have been identified as two typical Chinese cultural characteristics, of which quite a few studies have elaborated on the impact they have on a Chinese way of management in current environments. Therefore, investigation on whether and to which extent those two characteristics were permeated into the case company's MCS development would provide a promising entry point for understanding the deeper motives behind managerial behaviour.

Paternalism and MCS in International GS

It is noted that 'compliance' was the most frequently mentioned word in managers' interviews, which was also represented as the common idea implied in the company's various facets of MCS construction. While militarized on-site construction management, total planned cost allocation and expatriate controls reflected the demands for compliance with certain rules and routines, implicit personal judgment in PMS, centralized decision making for personnel appointment, and vague, 'superior-oriented' scope of managerial responsibilities further suggested that 'compliance' could be associated with particular persons, especially those in higher positions and powers. This 'person-in-control' mode was equated to some autocratic or even dictatorial means. However, in this case company, Chinese managers from different levels barely recognized this managerial mode as 'autocratic' since rather than suffering from it, they showed great acceptance, even advocated the manner of compliance. Although complaints were inevitable, managers' dissatisfactions were merely revealed when their demands were not fully responded to or the interest conflicts were not reasonably mediated. In effect, most of them have not stated that the managerial mode was per se wrong.

Compliance with person-in-control can actually be represented as the embodiment of paternalism, within which the deeply rooted idea of 'filial piety' transcended its familial meanings and manifested in management scenario. In other words, while paternalism endorsed hierarchical differences by classifying members based on their powers, the superior-subordinate relationship was actually recognized as an externalized version of parent-children relation in family setting. At this point, the duality of 'filial piety', as the essential feature of paternalism, distinguished this managerial mode from autocratic by suggesting the compliance is not only spontaneous but also conditional. More precisely, while compliance was required as the responsibilities of 'children' in Chinese family culture, 'parents' were also imposed with obligations by which they should behave considerately and exemplarily, instruct their children and provide guidance for the children's own good.

In this sense, when paternalism as the cultural form embedded in Chinese people's cognitions, the management was inevitably circumscribed by certain orthodoxy which was generated from the intrinsic familial ideas. Therefore, a symbolic behaviour pattern was formed, in which people would be inclined to behave obediently as they believed the instructions were responsibly made and would eventually benefit for their own good. This kind of behaviours pattern was especially manifested in GSJN's expatriate control mode. Although the isolated workplace, self-supplying facilities and strict expatriate control mechanisms greatly restrained individual's activities in local life, in most of interviewees' perceptions those restrictions represent a certain form of good intentions. More precisely, the company could be recognized as a big family, in which its members as 'children' were protected, supplied and guided by 'patriarchal' advice. Therefore, complaints may occur just like there are always some 'naughty' children who will challenge their parents' opinions. However, those complaints were unlikely to be escalated as most of others in the 'family' would appreciate advice as a benefit.

It is fair to state GSJN have benefited from the paternalistic expatriate controls. The internal unity within Chinese employees was strengthened, which facilitated the company to achieve some unified objectives. However, while Chinese employees endorsed the patriarchal protection, they indeed distanced themselves from local contexts. Biased understandings about Ghanaian society, custom and culture were apparently expressed by Chinese expatriates simply because they do not have the ability to get involved in local life. But a more problematic situation is they gradually lost the willingness and motivation to contact with locals, which further aggravated misunderstanding between Chinese and Ghanaian groups.

More importantly, while the prevalence of paternalistic ideas was appreciated by Chinese managers, they self-assertively conceive that such ideas will also be understood by local managers without any difficulties. However, from the perspective of local managers, the paternalistic ideas have been greatly misunderstood as cold-blooded and even hegemonic approaches, which resulted in a big communication gap and directly affected the implementation of MCS and other operational approaches in practice. Many local employees showed dissatisfaction about their identities in the company as they stated many Chinese colleagues were either reluctant to contact with them, or treated them as the outsiders with no respect, despite having already long-term work experience in this company. A more severe problem emerged when paternalistic controls were directly imposed to those local managers. For example, while militarized controls were implemented in construction process with strict mandate, superiors' personal judgement and penalties for disobedience, local managers spontaneously linked these control mechanisms with autocracy as they were unable to resonate with the underlying 'good intentions' of paternalism. They stated these restrictions constrained their freedom and disrupted their self-will, which in turn resulted in lack of cooperation and dissatisfaction in workplace. However, in Chinese managers' views, those negative attitudes were recognized as local managers' 'misbehaviour' which were further defined as 'unprofessional' and 'lack of responsibility'. In this sense, rather than ascribing GSJN's managerial problems into the design and use of specific MCSs, a more insightful explanation may derived from the embedded cultural differences. In other words, both Chinese and Ghanaians behaved in their self-justified ways, where it is inappropriate to distinguish the 'right or wrong' as both ways are culturally supported and rooted in individuals' cognitions.

Moreover, just like one director comments that "*we accept dictatorial management as long as a 'wise' person is in charge.*" (LZ9). This statement indicated another feature of paternalism that management system could be greatly influenced because of the reliance on a certain person. However, it is more likely to lead to practical problems even if the system per se is well-designed and the person in charge is 'wise' enough. Take the chairman of GSJN as the example; the idea of localization was largely generated from his own experience of working and living in Ghana for about 20 years. Although this proposition thoughtfully covered how expatriate management needs to adapt to local political, societal and cultural environments, the practical results were far from his expectations. Whilst the localization idea was the result of the manager's personal effort, its implementation was largely based on other managers' compliance, as well as their respect for the general manager's experience, capacity and even charisma. But in the meantime, they still felt disconnected and had difficulty to appreciate the meaning of localization. In this sense, paternalism further generated disconnections between different levels of management within the company, which then resulted in the problems in the use of MCSs.

Guanxi and MCS in International GS

While the prevalent idea of 'conformity' provided a suitable entry point for exploring and explaining the implication of paternalism in MCS development of the case company, *Guanxi* has been barely mentioned in interviews straightforwardly. However, rather than considering *Guanxi* was omitted in the company's MCS use, the absence in dialogue actually reflected how the idea of *Guanxi*, as the most embedded taken-for-grantedness in Chinese people's mind, subtly functions in managers' daily practices and unconsciously influences people's behaviours. It is reasonable to make such argument not only because managers frequently emphasized 'reciprocity' – the core idea of *Guanxi* development, as their managerial concept in localization. *Guanxi*-related ideas in terms of 'affective ties', *Renqing* and *Mianzi* were also implied in various aspects of GSJN's managerial routines, which in turn formed different types of *Guanxi* development that either facilitated or impeded the company's use of MCS.

Working Guanxi among Chinese managers was firstly identified based on the use of PMS in GSJN. Due to the different degrees of involvement of *Renqing* and *Mianzi* in developing and maintaining *Guanxi*, *Working Guanxi* in GSJN could be further specified into two meanings which implied in different aspects of GSJN's PMS use. The nominal use of peer-evaluation in measuring managerial performance reflected how *Guanxi* was built among managers with similar positions, in which exchange of favours was been recognized as the prior consideration of managers as they were bounded by the reciprocal meaning of *Renqing*. In other words, while managers often ascribed their perfunctory treatment to peer-evaluation as a way to achieving individual equality within a collectivity and which had greatly been viewed as the embodiment of collectivism in Chinese societies (Tsui, 2001; Chow *et al.*, 2000); the *Renqing* factor actually represents the origin of the idea of collectivism, because affective ties among managers can only be cumulated and reinforced through a continuous and reiterative process of favour exchange, which in turn cultivated a harmonious image of a group that was appreciated and shared by the members within it. In the case of GSJN, the subjective measurements based peer-evaluation actually provided an appropriate place for managers to exchange favours. Each manager was able to receive proper rewards as they mutually acknowledged each other's performance.

Another aspect of *Working Guanxi* refers to the superior-subordinate relationship, which is embodied in the use of top-down performance assessment. While most interviewees showed acceptable attitudes toward superiors' personal judgement and recognized the underlying hierarchical differences as the normal phenomenon of Chinese companies, they actually expected hierarchical *Working Guanxi* to be developed as the playground for the rule of *Mianzi*. In other words, a person's *Mianzi*, as the representation of his/her social status and power, need to be respected and appreciated for maintaining a smooth *Guanxi* relationship. From the perspective of PMS use, while respecting someone's *Mianzi* represents a special form of favour exchange, in workplace subordinates would involuntarily accept superiors' evaluation and cater to their directions as showing a positive gesture to their superiors. This kind of 'good will' would be further identified by superiors as a received favour, which needs to be repaid to the subordinate in the form of performance assessment. In this sense, rather than a technical mechanism, top-down performance assessment was actually used to examine if both sides within a *Working Guanxi* are sensible to the interplay of *Mianzi* factor, which in turn determines the trustiness, cooperation and harmony among managers. In summary, although the evaluation systems per se may not reflect managers' real performance, they still function as indispensible parts of PMS since which facilitates the development of *Working Guanxi* as the realization of managers' cultural perceptions in the managerial perspective.

From a broader perspective, a special *Business Guanxi* between GSJN and local government and institutions can be identified, which is mainly manifested in the company's localized management. Although "*respecting and complying with local authorities' rules and regulation*" was stressed as the premise for a good relationship between GSJN and local government, it only partially revealed how the *Business Guanxi* was developed. The unique feature of *Business Guanxi* in the case company refers to it is expected to be conducted between key players within the company and government. The inter-personal relationship has been identified as the foundation of mutual trust and reciprocity, which would cumulatively impact on the broad business scenario. This particular view reflected the underlying logic of *Guanxi* as Chinese people believe that though it may be informal, the affective-based ties are more reliable in long-run than those ties which generated from business cooperation or formal contract. From the operational perspective, because this *Business Guanxi* emphasizes the cultivation of affections, as the general manager stated:

"*Making friends with them is the primary yet essential content. So you respect them, take care of them, provide help when they need and show your sympathy when they loss, and you also need to participate into their social activities. Briefly speaking, the Business Guanxi started from off work time.*" (JN2)

It is apparent that the development of *Business Guanxi* is an inclusive and circumscribed activity, which is irrelevant to most middle and low managers not only because they barely have opportunities to contact with governmental officials, but they were also lack of time and experience to get along with local people. In this sense, while building *Business Guanxi* was identified as the main approach to achieve localization, it significantly affected the implementation of localized management in practice. As showed in many interviews, because managers felt disconnected with the practices of localization, they expressed reluctance to the idea of localization or indifferently recognized it as top managers' responsibilities.

The last type of *Guanxi* was revealed between Chinese and local managers. However, there were not any concrete form of *Guanxi* can be found in the case company. In contrast, the development of *Working Guanxi* between Chinese and Ghanaians revealed as a great failure, which resulted in various managerial problem and misunderstanding. Interviews from Chinese managers indicated that the main reason for failure refers to that the underlying *Renqing* concept is unable to be understood and appreciated by Ghanaians, which resulted in the discontinuity of favour exchanges. As one manager stated:

"*…we always treat local people kindly as we believe in a reciprocal relationship. For example, I often lend money to local workers despite they may delay in repayment. It is not a matter of money because what I expected them to remember is I once helped them, so they need to help me when I have demand. However, it is just my one-sided with as local people don't understand our 'Renqing'. They will repay your money back and then forgot the whole thing.*" (JN11)

While Chinese managers identified the affective nature of *Renqing* as taken-for-grantedness, they barely realized that *Guanxi* is culturally supported rather than universally applicable. Therefore, the failure of sharing cultural ideas led Chinese managers to develop an 'in-group' perception as they seek for the sense of belonging and identity, by which they further isolated themselves from local contexts. From the managerial perspective, the 'in-group' perception was mainly embodied as arbitrarily identifying local managers as 'middle men', which indeed reflected Chinese managers' lack of trust in local people. From local managers' view, this invisible yet powerful culture barrier aggravated their dissatisfaction about the company's managerial regulations and policies. Paternalistic controls were more likely to be understood as dictatorship as they cannot conceive how the affective ties derived from *Guanxi* development mitigated the potential conflict.

Chapter 8: Conclusion

8.1 Scope of the study

This study sought to investigate the role of management control systems (MCS) in a Chinese multinational construction company. In particular this study seeks to answer two research questions. The first question is how MCS rules and mechanisms were designed at the head office of a multinational corporation in China, and subsequently how these formal rules and mechanisms were implemented in its overseas subsidiaries. The second question focuses on how the specific Chinese contextual factors impacted on and interacted with the design and use of MCS rules and mechanisms in different national settings.

This study employs a qualitative exploratory research paradigm (Humphrey and Lee, 2007), by which a case study has been conducted in International GS - a Chinese multinational construction company. The case study involves two distinct research sites in different national settings. More precisely, research in the first site has been conducted at the head office (known as GSLZ) of International GS located in Mainland China, and the second site refers to one of International GS's overseas subsidiaries (known as GSJN) located in Ghana. In-depth semi-structured interviews have been conducted with top and middle managers in both research sites. Managerial documents reviews have also been adopted for supporting the interview-based data. Insights from neo-institutionalism (Scott, 2008, 2013) have been introduced to interpret the case data and findings. Such institutional-led concepts provide theoretical support to reveal the complex and interdependent contextual factors which underpin MCS design, use and changes in different locations. Moreover, informed by Scott (2008, 2013)'s idea of cultural-cognitive institution, this study emphasizes that culture as the fundamental form of institutionalization shapes and reshapes regulatory power and belief systems. In this sense, it argues that Chinese cultural characteristics greatly shape the inherent rationalities of particular MCS adoption, which also results in practice variations in different locations.

Due to the increasing establishment of Chinese multinational corporations in emerging and less-developed economies, this study offers a new insight for research in the study of MCS in non-western contexts, in order to enrich the literature in the area of MCS development and dissemination.

8.2 Summary of findings

This study mainly focuses on four aspects of MCS design and use in overseas operation, namely budgetary system, performance measurement and incentive system, cost management and localized control mechanism. Findings from the head office showed how regulative and normative institutional pressures conflictingly and simultaneously circumscribed the company's design of MCS. On the one hand, the introduction of responsibility-contracted PMS, target costing and project-based responsibility management showed the company's MCS design greatly echoed with regulatory expectations in terms of government's pursuance of marketization, as well as the normative pressures such as the demand for modernized construction corporations from industrial professional bodies and associations. On the other hand, the specific rule setting also revealed an authoritative control mode by emphasizing centralization, compliance and military approaches, which implied managers were partially influenced by the organization's former identity as a state-owned enterprise, as well as the underlying social norms of the Chinese planned economy system. Moreover, it also indicated that the design of MCS was not completely a spontaneous activity as managers were greatly directed by the state control and interests. The contradictory design of MCS rules in the case company limited managerial autonomy and innovation, and hampered managerial motivation. As a result those control systems have been greatly ceremonialized and loosely-coupled to management routines.

The interactions between regulatory and normative processes in the Chinese contexts provided several explanations of the MCS design. Firstly, while the idea of a liberal market represented the main interest of the State in influencing the company's MCS design, a conflicting idea of state control still led to coercive power impacting on the design process. The contradictory regulatory enforcements contributed to the problems of MCS design in the case company. Secondly, the boundaries between regulative and normative processes were blurred as the State was directly involved in the development of professional bodies, whereby state interests and controls appeared to be disguised under normative-led approaches. These approaches allowed the State's regulative forces to impact on the company's MCS development without exerting 'visible' coercive powers, and managers appear to be readily internalizing regulative mandates as an appropriate and desirable behaviour. This finding further explained why the conflicting and problematic MCS rules co-existed without causing serious resistance and complaints by Chinese managers.

The findings of MCS implementation further showed that although rules were imposed in the Ghanaian subsidiary, managers rationally created practical variations as a localized approach to respond to the contradictions in the setting of MCS rules and mechanisms, and adapting to the local political and market needs. However, individuals' cognitions were shaped and reflected by certain intrinsic notions that derived from the interactions between regulative and normative institutions, which in turn formed a specific logic of 'policy orientation' used by Chinese managers in managerial practices (Lounsbury, 2008). As a result, the adaptation of MCS was too superficial to achieve its objective of localized management. Although problems in MCS design and use were identified by Chinese managers, they were unable to make changes, or were reluctant to interact with the local context, which in turn aggravated misunderstanding amongst local managers who perceived that the Chinese managers were using MCS in a hegemonic fashion.

Informed by Scott (2013)'s idea of a cultural-cognitive institutional order, this study argues that the unique Chinese culture as the fundamental institutional logic that provides the infrastructure on which not only beliefs, but norms and rules rests. Two characteristics of Chinese culture have been identified to explain the rationalities behind the problems of MCS design and use in the case company. Firstly, it suggests that *Guanxi* (personal relationship) maintenance constitutes a significant part of management control routines. Through the building of affective ties among individuals, *Guanxi* development is likely to enrich the unity and harmony of inner organization, by which the conflicts and divergence of MCS rules and routines would be mediated and avoided. Secondly, the unique family-oriented social order in China results in a taken-for-granted endorsement of hierarchy and power differences, in which the paternalistic approach are likely to be accepted, and in fact even expected in the use of MCS. This argument would not only explain the prevalence of a rule-based tight mode in this case company, and to a certain extent it also helps to understand why the governmental centralized SOE structure and its underlying planned economic notions are still inherently playing a role in the management of Chinese corporations.

8.3 Research contributions

While those empirical findings provided answers to the two main research questions in the previous part of this chapter, those answers, along with the specific research design and the choice of theoretical framework, further contributed to various aspects of current MCS research. The following section will respectively discuss those contributions from a theoretical and empirical perspective.

8.3.1 Theoretical contributions

This study contributes to the theoretical development of contextual MCS research. Firstly, from a broader sociological perspective, this study introduced the concept of contextualization (Tsui, 2006) as a holistic yet comprehensive treatment of the relevant context to the focal research. Secondly, based on the evaluation of various facets of institutional theory, Scott (2008, 2013)'s 'three pillars of institution', as an integrated framework of neo-institutionalism ideas, has been introduced to this case study for an explicit explanation and analysis of the interactions between contextual factors, MCS design and use, and the related managers' activities. But more importantly, this study shows how these two concepts can be combined to provide an insightful analytical framework. More precisely, while the notions of 'three pillars of institution' and 'interactive institutional elements' provide a 'conceptual space' for contextualization, the specific institutional factors identified through the latter greatly improves an in-depth application of theoretical framework. Based on this 'combination', some insightful findings are revealed to complement the understanding of institutional theorization. For example, the case finding shows a special mode of how regulative and normative institutions are intertwined and blurred in boundaries. While this finding to a large extent corroborates Scott's (2008) argument about the 'transferrable' orders of institutions, it further reveals that this transfer process may not necessarily spontaneous, since in the case of China the underlying state control can be intentionally embedded in the disguised normative systems.

This study criticized that the contingency approach may not able to reveal the broad scope of MCS and its interactions with managers' activities under specific contexts, which is not only because of the limitations of variable analysis, but also resulted from the intrinsic 'economic rationality' that implied in the 'fit-performance' logic of contingency frameworks. Based on the neo-institutional explanations, this case study supports the argument that the 'economic rational choice' is not the dominant assumption of MCS development and strategy making in the Chinese context. Inspired by the argument of neo-institutionalism that the manager is able to actively interpret the external institutional pressures into their managerial practices, this study found that the meanings of state control and interests which were implied in regulative and normative institutions have been greatly internalized as a part of the managers' taken-for-granted cognitions. While those cognitions formed a shared rationality of 'policy orientation' which prevailed in the case company, the design and use of MCS were significantly deflected from economic rationality or performance effectiveness. Managers showed great acceptance of managerial problem in practice as long as specific political demands were satisfied.

From the cultural aspect, this study challenged the dominant position of culturalist theory in MCS research by criticizing the exclusive use of Hofstede's classification as the analytical approach to culture. This study argued that as a value-based, quantified and static treatment to culture, this definition is unable to capture the greater depth, richness and complexity of culture and cultural diversity in MCS research, which in turn resulted in the contradictory findings of extant cultural MCS studies. Informed by the social effect view (Bhimani, 1999), this study identified culture as a changing process, in which the interactions between culture and other societal aspects within social transformation were emphasized. This proposition contributed to current research as it relocated the position of culture in contextual research. In other words, due to the embedded social nature, cultural factors would be identified as mediators between varieties of patterns in a society, which is integrated to form national specificity. This study suggests that contextual MCS researchers should embrace a more holistic yet flexible theoretical framework towards the context, rather than make clear boundaries between cultural, political, societal, economic, historical and other aspects within a context. The significance of this holistic approach has been further embodied through the introduction of the idea of contextualization. While contextualization emphasized the multiplicity of context, it indicated that an in-depth understanding of a specific context is likely to be obtained from an indigenous view point. This proposition echoed with recent theoretical development of management accounting research in less-developed and emerging contexts (Hopper *et al.*, 2009; C. Alawattage and Wickramasinghe, 2009a; Vollmer, 2009), which argued the premise of transforming management accounting system in these contexts is to understand and facilitate local needs.

In this case study, the use of contextualizing approach may inspire future research from two aspects. Firstly, this study identified paternalism and *Guanxi* as two Chinese cultural characteristics, which offered some unique yet insightful views for future research to explain how cultural dynamisms interacted with the development of MCS in the Chinese context. But more importantly, as culture is defined as a changing social process, this study provided contextualized explanations of the origins and historical development of those characteristics, as well as their realistic meanings in current organizational management. Therefore, this study also displayed a possible way for future research to identify more Chinese cultural characteristics and subsequently contextualize those characteristics into MCS studies. Secondly, because of its profound effects on China's political, societal and economic transformation, this study also provided a historical review of China's economic reform progress, by which the development course of the case company has been contextualized at the macro level. This integrated approach greatly facilitated the following analysis of the case findings as it provided detailed information about how the company's current structure, strategy, and MCS design and use originated, evolved and developed under the incremental process of economic reform, thereby leading to a better understanding of the current status of MCS development. In other words, contextualizing the research case greatly facilitated neo-institutional based analysis since which provided a promising approach to reveal how institutional stability and change are co-existed in the case company.

Last but not least, this study suggested that the contextualization approach would be an appropriate facilitator for neo-institutional theorization. Formed as a holistic viewpoint, contextualization assumes that the multiple aspects within a context interactively and simultaneously form the specific image of a context. Hence, this proposition is greatly aligned with Scott (2008, 2013)'s 'three pillars of institution' which emphasized the interdependent nature of institutional orders. Based on the explicit contextualizing work of the case company, interactions among institutions from different aspects have been clearly identified in this case study, which provided valuable empirical information for future neo-institutional related MCS research. Specifically, this study not only showed how regulative institutions exerted powerful enforcement on the MCS design, or how state interest and control were disguised behind the normative instructions to impact on managers' behaviours, it also showed how managers' cognitive activities interacted with external pressures and eventually generated certain shared rationalities in managerial routines. But more importantly, cultural framework has been recognized as the most embedded meanings of people's cognition, which shaped and also reshaped by the interactions among institutions.

8.3.2 Empirical contributions

The first empirical contribution of this study refers to the choice of research setting. This research avoids the pre-suppositions of 'Western-predominated MCS' that has been traditionally made in prior Chinese MCS conducted in international joint venture and their Chinese partners. Instead, when focusing on the design and use of MCS in a Chinese multinational corporation (MNC), this study contributed to enrich one's understanding of China's dynamic role in the current development of MCS (Dong and Liu, 2010). The use of this alternative research setting envisaged China as a significant and independent, but not necessarily dominant player in the global setting, whereby this study provided room to investigate possibility of the emergence of a "Chinese style management accounting and control system" (Bromwich and Wang, 1991; Scapens and Yan, 1993; Tsui, 2006).

Moreover, while many recent studies emphasized the significant influence of Chinese government, and the concurrent politically-driven outward foreign direct investment (OFDI), State owned enterprise (SOE) transformation and corporate governance on the establishment and development of Chinese MNCs (Lu *et al.*, 2010; Cho and Huang, 2012; Klossek *et al.*, 2012; Huang, 2011; Li *et al.*, 2012; Quer *et al.*, 2012; Cui and Jiang, 2012), this study contributes to provide empirical case findings of how this political influence reaches 'downwards' to the MNC's management control and operations. In this regard, this study further reflected on the need to look at the 'broader scope of MCS' in current research. It especially echoed Malmi and Brown (2008)'s idea of 'MCS as a package' which included the governance structure and its organizational structure as components of a corporation's MCS. In other words, while empirical findings corroborated China's government policies and instructions of SOE structuring significantly influenced the case company's board of directors, administrative structure and strategies, this study displayed an alternative perspective of how MCS is formed and developed in the Chinese context.

The second empirical contribution is derived from the specific design of case study and the selection of case company. The particular case of a construction company expanded the current MCS case study since this industry, in spite of its size and importance in modern economies, rarely features in management accounting and control research (Love and Irani, 2004; Kernen and Lam, 2014; Hoque and Alam, 1999). The case finding suggested that besides the conventional management control systems in terms of budgeting, costing and performance measurement, control functions have also been manifested in various types of industry-specific mechanisms such as the use of 'Cheng Jian Zhi' as the on-site construction management control, the responsibility-based project management, and the militarized labour and personnel controls. These empirical findings not only provided insight to supplement the notion of a 'broad scope of MCS' (Chenhall, 2003; Malmi and Brown, 2008), but also facilitated researchers to investigate the subjective and interactive aspects of MCS (Langfield-Smith, 2006; Simons, 1995). In other words, while the construction industry is labelled as a labour intensive industry with great independence in project operation, the case study revealed the use of management control mechanisms greatly varied and even conflicted among different levels of management and projects, since the flexibility and subjectivity of managers' activities were further amplified under the constantly changing and unexpected issues with labour force and construction environment.

This study also contributed to the recent studies which particularly paid attention to the internationalization of Chinese companies in African countries (Cooke, 2014; Kernen and Lam, 2014;

Wang and Elliot, 2014; Xing *et al.*, 2014; Grimm, 2014). While those studies claimed the African-related research as a promising way for investigating the development of Chinese MNCs, most of them are primarily theoretical or merely provided general prospects for future research. In this sense, this study is able to fill the empirical gap through the case study in the Ghanaian subsidiary. Specifically, the case findings about the use of localized management control in GSJN to a large extent revealed how a Chinese company diffuses and adopts its own MCS in African contexts, which in turn enriched our understandings of China's unique 'dynamism' in the globalized era.

Last but not least, while this study advocates the idea of contextualization (Tsui, 2006) as the means for contextual MCS research, it provides a comprehensive yet indigenous picture about the Chinese context in terms of its unique cultural characteristics and economic reform progress, their impact on Chinese society in general, as well as on the MCS development in particular. As a result, some unique characteristics of Chinese contexts in terms of paternalism, *Guanxi*, contracted responsibility system, 'Cheng Jian Zhi', and 'engineering norms' were identified, which significantly interacted with the development of MCS in the case company. In this sense, an in-depth contextualization of the research case helped to explain the contradictory outcomes of a few contextual related MCS research in the Chinese context (Chow *et al.*, 2000; Tsui, 2001; Park and Luo, 2001; Pun, 2001; O'Connor *et al.*, 2004; Efferin and Hopper, 2007; Li *et al.*, 2013). For example, the paternalistic implication within the design and use of MCS in the case company (e.g. subjective PMS, expatriate control, military on-site project management, etc.) revealed a special meaning of 'compliance' and 'hierarchy' in the Chinese context, which may provide an alternative conceptualization of high 'power distance' in China and beyond (Chow, Lindquist and Wu 2001; Cooper, Chow and Wei, 2002; Tsui, 2001). Moreover, while the fixed 'engineering norm' has been recognized as the most significant player (and hamper) of the case company's project budget design, this study may also enrich researchers' current understanding of the budget system in the Chinese context (O'Connor, Chow and Wu, 2004; Tsui, 2001). It is especially pertinent to studies in China's industrial enterprises since although the 'quota system' (and the derived engineering norms) is still applying in these forms of enterprise, it has rarely been mentioned in previous studies (O'Connor, Vera-Muñoz and Chan, 2011; Wu, Boateng and Drury, 2007).

8.4 Research limitations and implications for future work

8.4.1 Limitations and future work

This study selected International GS as the case company, by which the variations between MCS rules and routines are able to be explored and explained based on field research in the company's headquarter (GSLZ) and its Ghanaian subsidiary (GSJN). However, International GS has 17 operation sites all around Africa of which GSJN is only in charge of the western regions. Due to the restricted accessibility and time, the first limitation of this study is it was not able to conduct more field studies in other international subsidiaries. Hence, the comprehensiveness of this study in exploring and explaining the use and contextualization of MCSs in different local conditions is restricted. Moreover, the possible managerial network between overseas subsidiaries is also overlooked due to the limited field studies, although the importance of such network has been increasingly recognized, especially for MNC's internal knowledge transfer (Szulanski, 1996; Manev, 2003; Gammelgaard, McDonald, Stephan, et al., 2012). In this sense, other subsidiaries of International GS may able to be included as extended case studies into the follow-up research.

The extended case study may contribute to better understandings of MCS development within the Chinese-African contexts. On the one hand, it is very likely that the contexts of different African countries are also diversified as they have different political system, economic development, colonial history and culture and religion. In this sense, extensive case studies may help us to understand how Chinese managers interact with diverse contexts in designing and using MCS in different locations. On the other hand, extended case studies may also help to investigate how managerial knowledge is transferred between a MNC's subsidiaries through its internal network. For example, localized management, as a bottom-up managerial approach which was primarily proposed by the general manager of GSJN, its implementation in GSJN has been largely supported by certain paternalistic enforcements which reflected the general manager's personal insistence. Therefore, while this approach was shared by other subsidiaries' managers through the company's internal managerial network, and it has been further acknowledged as a universal method for International GS's overseas subsidiaries, case studies in other subsidiaries may especially facilitate a more comprehensive and comparable investigation on the absorption and use of this approach, as well as managers' different perceptions and interactions with this managerial innovation.

Another limitation may generate from the Ghanaian case per se. More precisely, the selection of interviewee somehow shows 'unbalanced' since only 6 of the 27 selected interviewees in GSJN are

Ghanaian. Moreover, almost all Ghanaian interviewees are positioned in the company's middle/functional managerial level (except one project appraiser), who are distant from company's key information about MCS implementation and decision making. This interview setting is greatly subjected to the case company's own limitation (or even intention) in local human resource management (i.e. the concept of 'middle man'), of which this specific managerial feature has further been identified as an important cause of MCS problem in Ghana. However, the lack of local voice and opinion may resulted in a slant understanding about the MCS development, which is especially significant since insights about how contextualization works in Ghana and how Chinese culture interact with the Ghanaian context may not able to be fully captured. Therefore, future study should pay more attention to the local perspective and expanding field research to International GS's other African subsidiaries is likely to enrich one's understanding about the local responses to the company's extant MCS. It is imperative to fill in the gap since the localization of MCS would always be a mutual process in current globalized economy.

From a broader perspective of organizational structure, International GS is merely the overseas department of Construction GS – a historical and key provincial SOE in western China, another limitation of this study refers to it only investigated on the development of MCS in Chinese state controlled MNCs. This particular case design is well-justified as most of Chinese overseas construction operations, especially those in Africa, emerged from the strategic SOE transformation through aid projects and OFDI. However, it is also noticeable that a great number of privatized Chinese enterprises have rapidly developed their overseas operations in recent years, which may contain quite different forms of institutions and means of MCS development. In this sense, a more complete understanding of MCS in Chinese MNCs is likely to be obtained through future investigation in this different setting. In other words, while privatized MNCs are less influenced by political interventions and interests as they would not receive direct mandate from the government, their MCS development may be interacted with different forms of regulative and normative pressures, which may further lead to differed shared conceptions within managers even if they are bound by identical cultural frameworks.

8.4.2 Implications for future work

Based on the contextualization work of indigenous knowledge on cultural influences in China, this study proposes that paternalism and *Guanxi* as two unique Chinese cultural characteristics which are unconsciously yet profoundly involved in managerial practices. How the cultural dynamisms interacted with MCS development have been further explored and explained in the case study, by which the two characteristics somehow revealed differences in functions and exerted impacts on different facets of MCS development. However, it is important for researchers to bear in mind that those cultural characteristics actually originate and evolved from Confucianism, whereby their expressions in management were largely the externalization and resilience of ‘Wu Lun’ principles within Confucian philosophy (Jacobs *et al.*, 1995; Yang, 2002; Fan, 2000; Bedford and Hwang, 2003; Gao and Handley-Schachler, 2003). This argument implies that a comprehensive understanding about Chinese culture depends on a holistic treatment of the underlying philosophical meanings of cultural characteristics.

As discussed in chapter 5 (section 5.1), while Confucianism identified the most basic unit of a society is family, the relevant ‘Wu Lun’ principles primarily provided doctrines for guiding how Chinese people behave themselves in familial relations, in which the underlying assumption is that the society per se is the aggregation of families and the social life is the extension of familial life. This unique mode of thinking implied that rather than living alone in a society, a Chinese person must behave appropriately in his/her relations, by which some criteria are manifested to evaluate and circumscribe the appropriate behaviours. More precisely, ‘Wu Lun’ required people to identify compliance as their responsibility, to incorporate their self-identification into familiar values, to appreciate self-sacrifice as the achievement of familiar harmony, and to establish moral and ethical standards for judgement and assessment. All of these criteria are reflected in paternalism and *Guanxi* characteristics.

For the implication in specific management and accounting research in China, it is likely to state that the unique Chinese culture, as the reflection of Chinese social ethics and norms would also form specific business and management ethics. Therefore, modern managerial know-how may be incompatible in Chinese contexts since they are derived from the completely different western ethics and civilization. An increasing number of Chinese researchers in business and general management studies have envisaged that the fundamental ethical differences result in distinctive moral reasoning for business corruption (Ho and Redfern, 2010), management styles (Ahlstrom *et al.*, 2010), and relation-based corporate governance (Lau and Young, 2013). In this sense, accompanying by the increasingly important role of China in globalized economy, for future work it is imperative to investigate whether and how to adopt western MCS ideas when those ethical issues remain, or to explore the possibilities and ways of establishing indigenous theories of management to facilitate the unique ethical phenomena (Barney and Zhang, 2009; Child, 2009; Whetten, 2009; Cheng *et al.*, 2009).

From the practical perspective, while this study recognizes some industrial-specific management control practices in Chinese construction companies (e.g. quota-based project budget, military-based control mechanisms, target costing, etc.), it implies that relevant practitioners, especially those who work with Chinese construction companies may achieve better collaboration through a deeper understanding about the nature, differences and application of these Chinese approaches. For example, this study reveals that the adoption of target costing, as a part of implementing 'modern enterprise management system', has been greatly encouraged by government and professional bodies and extensively adopted in Chinese construction industry. This finding is somehow different from western countries since the practice of target costing is usually ascribed to the manufacturing industry, although its use has been noted in the service industry (Yazdifar and Askarany, 2012). In this sense, this study echoes with studies which attempted to explore the effectiveness of target costing in construction industry, and also expects that insightful findings of the implementation of target costing would be obtained from this industry (Nicolini, Tomkins, Holti, Oldman and Smalley, 2000; Chan, Lam, Chan and Wong, 2010; Pennanen, Ballard and Haahtela, 2011). Consequently, in the findings this study may further inform professional accountancy bodies (e.g. Chartered Institute of Management Accountants, CIMA) to document practice in the construction industry.

Appendices

Appendix A

Interview checklist

1 General question:

Name of interviewee

Job position of interviewee

Work length in this company

Whether work in an overseas subsidiary

Could you please introduce me the routine tasks of your job?

Could you please introduce the daily process of your job?

2 Question for accounting department:

Could you please tell me the accounting approaches used in your working?

What is the budgeting system in this company?

What is the costing system adopted in this company?

Can you tell me the differences of accounting used in construction companies with other kind of industries? Do you think you have different or unique approaches in doing accounting?

3 Question for management department:

What is the strategy of this company? And how such strategy can be reflected in management processes?

What is the performance measurement and incentive system in your company?

What is the reward and incentive system in your company?

Is there any links between performance measurement and reward system in your company?

What approaches are used in management level to monitor or control the routines and processes in other departments?

How the information (e.g. operation situation, financial situation, human resource information) report to managers? What approaches used to improve the communications between managers and other departments or employees? (Routine meetings? Reporting and feedback system?)

Do you have or have you tried to establish a systematic management control system in your company? Can you feel any benefits or difficulties to do so?

Have you used modern management accounting methods in your company? Or do you think any western or Japanese management approaches are useful or worth to adopted in your company? If yes, please give me some examples, if not, could you please tell me the barriers of adoptions.

Do you provide education or further education opportunities for you managers and employees? If so, what is the training system in your company?

4 Questions for project managers:

Could you please tell me the biggest differences in management in construction companies with other industries?

What is the management process during a construction project and which part is the most important?

What is your project management approaches?

How the company manages the contracts occurred in a construction project.

5 Questions for all Chinese interviewees:

Do you perceive that Chinese culture or traditions influence your ways of doing things, especially in your work?

In your opinions, which cultural factors played the most important roles in working conditions, please give me some examples.

Do you believe that Chinese culture lead to a special ways of doing things, working with other people or managing a company?

Could you tell me any benefits or disadvantages of such cultural influences in your work?

Do you think *Guanxi* is an important factors when working in China, if so, what is your attitude towards the influences of *Guanxi*?

Do you think *Mianzi* is a concern when your make a decision? And in which extent *Mianzi* determine your decision (in your daily life and in your working)?

Beside culture, do you think there are any other factors influence your work or manage the company?

As a member of a SOE company, do you perceive any difference of working in a SOE when compare with other types of companies? How do you feel about working in a SOE company?

6 Questions for interviewees who have overseas working experiences:

Do you feel any differences between working in China and in other countries?

Can you tell me any differences of routine jobs, management processes or other differences when you work in other countries?

If there is any difference, in your opinions, what are the causes of such differences?

Do you think Chinese culture factors still influence the ways of doing things when you work in other countries? Does it work in other places when you still hold cultural perceptions?

Could you tell me the local people's attitudes towards Chinese people and companies? Do you think Chinese culture impacts local people's idea and their ways of doing things?

What are the most important factors should be concerned when work in other countries? Is there any changes in approaches and processes when manage oversea subsidiaries?

Do you think the increasing communication with local people will improve company’s performance? If so, could you please list approaches that can enhance such communication?

As a member of a multinational company, do you think local management is important? (i.e. hire local managers and employees, respect local culture and tradition, design special management approaches to fit the local requirements). If so, do you have any advices for improve local management?

Appendix B

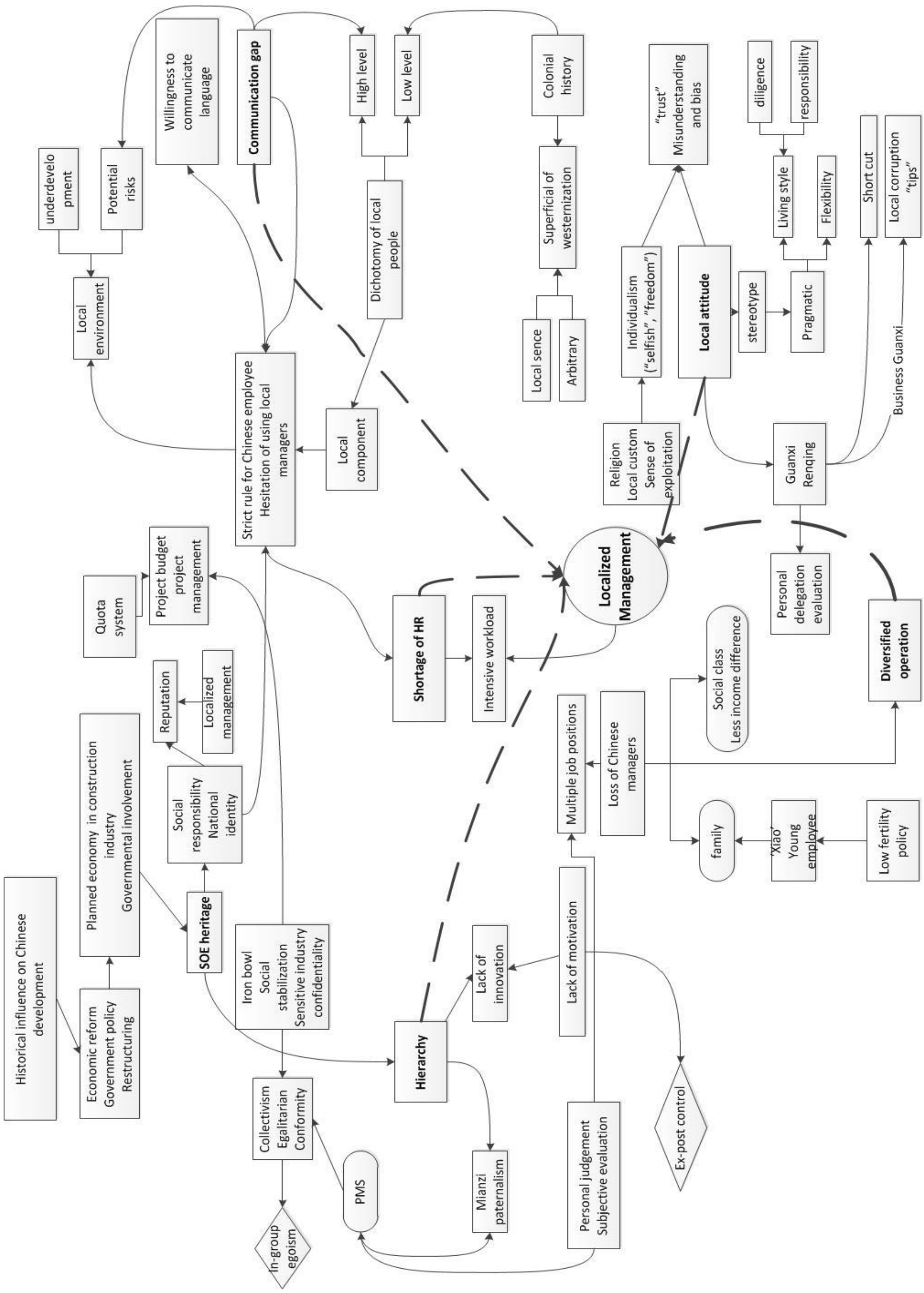
Interviewee list

GSLZ							
Interviewee Code	**Job Position**	**Department**	**Nationality**	**Place**	**Date**	**Duration (min)**	**Remark**
LZ1	General Manager	GSLZ(Head Office)	China	China	24/08/2012	90/30	Re-interviewed, 16/11/2012
LZ2	Deputy Manager	GSLZ(Head Office)	China	China	27/08/2012	60	
LZ3	Deputy Manager	GSLZ(Head Office)	China	China	27/08/2012	60	
LZ4	Chief Engineer	GSLZ(Head Office)	China	China	28/08/2012	90	
LZ5	CFO	GSLZ(Head Office)	China	China	29/08/2012	120	Re-interviewed, 24/10/2013
LZ6	Director	Human Resource	China	China	30/08/2012	120/30	Re-interviewed, 06/02/2014
LZ7	Director	Engineering	China	China	31/08/2012	60	
LZ8	Director	Operation	China	China	03/09/2012	60/20	Re-interviewed, 13/06/2013
LZ9	Director	GSMT	China	China	03/09/2012	90	
LZ10	Director	GSLS	China	China	04/09/2012	60	
LZ11	Director	GSEE	China	China	04/09/2012	90	
LZ12	Accountant	Financial & Auditing	China	China	05/09/2012	60	
LZ13	Accountant	Financial & Auditing	China	China	06/09/2012	45	
LZ14	Accountant	Financial & Auditing	China	China	06/09/2012	60	
LZ15	Projector Manager	Safety & Production	China	China	07/09/2012	45	
LZ16	Projector Manager	Technique & Quality	China	China	07/09/2012	30	
LZ17	Projector Manager	Engineering	China	China	10/09/2012	40	
LZ18	Operational Manager	Operation	China	China	10/09/2012	30	
LZ19	Operational Manager	Operation	China	China	05/09/2012	60	
LZ20	Middle Manager	Human Resource	China	China	31/08/2012	30	

GSJN							
Interviewee Code	**Job Position**	**Department**	**Nationality**	**Place**	**Date**	**Duration (min)**	**Remark**
JN1	Chairman	GSJN(Head Office)	China	Ghana	11/07/2013	120	
JN2	General Manager	GSJN(Head Office)	China	Ghana	04/07/2013	90/30	Re-interviewed, 18/12/2013
JN3	Deputy Manager	GSJN(Head Office)	China	Ghana	04/07/2013	90	
JN4	Chief Engineer	GSJN(Head Office)	China	Ghana	03/07/2013	120	
JN5	CFO	GSJN(Head Office)	China	Ghana	10/07/2013	120/30	Re-interviewed, 10/04/2014
JN6	Deputy Manager	GSJN(Head Office)	China	Ghana	10/07/2013	60	
JN7	Director	CSC	China	Ghana	09/07/2013	90	
JN8	Director	GSID	China	Ghana	09/07/2013	60/20	Re-interviewed, 05/03/2014
JN9	Director	GSM	China	Ghana	08/07/2013	60	
JN10	Director	SP	China	Ghana	09/07/2013	120	
JN11	Director	GSIHM	China	Ghana	10/07/2013	60	
JN12	Director	GSIT	China	Ghana	11/07/2013	60	
JN13	Director	Human Resource	China	Ghana	12/07/2013	120/30	Re-interviewed, 21/11/2013
JN14	Director	Engineering	China	Ghana	11/07/2013	60	
JN15	Director	Project	China	Ghana	08/07/2013	90	
JN16	Director	Operation	China	Ghana	08/07/2013	60	
JN17	Project Manager	Project	China	Ghana	03/07/2013	45	
JN18	Project Manager	CSC	China	Ghana	01/07/2013	40	
JN19	Secretary General	Administration	China	Ghana	02/07/2013	90	
JN20	Middle Manager	GSIHM - HR	Ghana	Ghana	05/07/2013	60	
JN21	Middle Manager	GSIHM - Marketing	Ghana	Ghana	05/07/2013	60	
JN22	Middle Manager	Accounting	Ghana	Ghana	12/07/2013	60	
JN23	Middle Manager	Accounting	Ghana	Ghana	12/07/2013	60	
JN24	Middle Manager	SP - Production	Ghana	Ghana	03/07/2013	45	
JN25	Project Appraiser	Operation	Ghana	Ghana	04/07/2013	45	
JN26	Accountant	Accounting	China	Ghana	01/07/2013	60	
JN27	Project Manager	CSC	China	Ghana	02/07/2013	60	

Appendix C

Thematic network map for data analysis



Appendix D

Scopes of planning of national economy – China's 12th Five-Year Plan (2011 - 2015)

1. Guiding principles and general directions, as specified in section 2 to 5.

2. Agriculture.

3. Upgrading industry.

4. Promoting the service sector.

5. Regional and urban development.

6. Energy and environment.

7. Education, science and technology.

8. People's livelihood and welfare.

9. Strengthening management of society.

10. Promoting socialist culture.

11. Perfecting economic Reform.

12. Advancing the open door policy.

13. Promoting democracy under socialism.

14. Establishing a harmonious society.

15. Strengthening defence.

16. Plan execution.

Derived from Chow (2011, p.2)

Appendix E

Extracted examples of 'engineering norms'

Engineering Norm of Air Brick Wall (190*290*190, M2.5)						
Quota Code	03/11/2001					
Quota Item	190mm Air Brick Wall, 190*290*190, Cement Mortar M2.5					
Unit	m3					
Cost Types	Cost Code	Cost Description	Quantity	Unit Price	Cost	Unit
Labour	R8000	General Work Day	1.53	23.43	35.85	Work Day
Material	2TH7	Cement Mortar M2.5, Level32.5	0.08	111.54	8.92	m3
	35	Water	0.11	0.84	0.09	m3
	TB0173	Air Brick 190*290*190	0.08	1364	122.76	1000
Equipment	J3075	Mortar Mixer 200L	0.01	50.03	0.5	Machine-team
* Cost(Yuan) = Quantity * Unit Price (Yuan)						

Derived from Construction Project Consumption Quota, XX Province, 2014

Engineering Norm of Prefabricated Reinforced Concrete Pile Extension (2-33, 2-34)				
Quota Code			Feb-33	Feb-34
Quota Item			prefabricated Reinforced Concrete Pile Extension	
Cost Types	Cost Description	Cost Unit	Angled Steel	Plated Steel
Labour cost	General Work Day	Work Day	18.35	19.16
Material Cost	Angled Steel	kg	80	-
	Welding Rod	kg	6.5	53.2
	Plated Steel	kg	-	599
	Shim Plate	kg	1.05	1.05
Equipment Cost	Diesel Pile Driver 4t	Machine-team	1.53	1.37
	AC Welding machine 40kva	Machine-team	3.04	5.46
	Crawling Crane 15t	Machine-team	1.53	1.37

Appendix F

State-owned industrial and commercial enterprises performance measurement system

Quantitative Indices (80%)			**Qualitative Indices (20%)**
Types of Indices (100)	Basic Indices (100)	Modification Indices (100)	Quality of Leadership (20)
Financial Metrics (42)	ROE (30)	Capital Maintenance and Increase Ratio (16)	Market Share Forecast (18)
	Return on Total Assets (12)	Sales Margins (14)	Management Level (20)
		Profit to Cost Ratio (12)	Quality of Employees (12)
Asset Efficiency (18)	Total Asset Turnover (9)	Inventory Turnover (4)	Level of Technique and Equipment (10)
	Current Asset Turnover (9)	Receivables Turnover (4)	Industrial (Regional) Impact (5)
		Non-Performing Asset Ratio (6)	Operational and Development Strategy (5)
		Asset Loss Ratio (4)	Forecast of Long-Term Development (10)
Liquidity (22)	Debt Asset Ratio (12)	Current Ratio (6)	
	Interest Protection Multiples (10)	Acid Test (4)	
		Cash Flow Debt Ratio (4)	
		Long-Term Capital Aptness (5)	
		Credit Business Loss Ratio (3)	
Long-run Profitability (18)	Rate of Revenue Growth (9)	Rate of Total Assets Growth (7)	
	Rate of Capital Accumulation (9)	Net Value Growth of Fixed Assets (5)	
		Average Growth Ratio of Profit in Three Years (3)	
		Average Growth Ratio of Assets in Three Years (3)	

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