

Rejection, Reproduction and Reshaping - A Field Study on Global Budget Control Practices in Multinational Companies

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Abstract

This paper examines the ‘travelling’ of budget control practices from the German headquarters to the Chinese subsidiaries of multinational companies. In particular, we first examine whether and why the headquarters impose standardised budget control on their subsidiaries that operate in the dynamic and volatile Chinese setting, which contrasts the rigid character of budget control. Second, we study how standardised budget control is used at the subsidiaries level. Drawing on Giddens’ social theory of modernity, we thus illuminate whether global budget control structures were reshaped, reproduced or rejected in the local. Our study relies on data collected in a field study of 23 dyads comprising German headquarters and Chinese subsidiaries from different industries and of different sizes. The comparative perspectives allow us to gather a deeper understanding of the contingencies that contribute to the reception of budget control structures in the local subsidiaries. Given the considerable economic, political and cultural distance between the headquarters and their Chinese subsidiaries involved in this study, we take account of several environmental factors that may impact the paths of travelling of global management control systems. Our findings suggest that these paths are particularly contingent on the perceived utility of budget control structures in the local subsidiaries, which is interrelated with the perceived predictability of future developments. In turn, competitive intensity, market regulation and regulatory density constitute factors that impact the perceived predictability. Our study also reveals differences with regard to the anticipation and responses on part of the headquarters that need to be considered in evaluating the paths of travelling of global management control systems in multinational companies.

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1. Introduction

This paper explores budget control practices in multinational companies (MNCs) operating in a German-Chinese setting. Based on field data collected in a dyadic research design, we illuminate whether the headquarters (HQs) of MNCs located in Germany implement a ‘global’ budget control approach in their Chinese subsidiaries and how budget control is de facto used in these subsidiaries. In this way, we contribute to an emerging stream of literature on the ‘globalisation’ of management control systems (MCSs) within MNCs (e.g., Barrett et al., 2005; Dossi and Patelli, 2008; Moilanen, 2008; Cruz et al., 2011; Mahlendorf et al., 2012).

Illuminating these issues appears important for several reasons. On the one hand, globalisation of business activities has entailed the emergence of MNCs that need to govern their subsidiaries despite often considerable physical as well as economic, political and cultural distances. In this context, MNCs typically rely heavily on MCSs (e.g., Busco et al., 2008; Dossi and Patelli, 2008; Moilanen, 2008; Mahlendorf et al., 2012). In many cases, MNCs implement MCSs that were established in the HQs (Van der Stede, 2003; Ezzamel and Xiao, 2011). The tendency to employ ‘global’ MCSs contrasts a large body of literature indicating that MCSs need to be highly contextualised to be effective (e.g., Chenhall, 2003; Broadbent and Laughlin, 2009; Franco-Santos et al., 2012). Correspondingly, a series of cross-country studies provides evidence that MCSs differ between countries as they are fitted to the individual local contexts (e.g., Harrison and McKinnon, 1999; Enderich et al., 2011; Merchant et al., 2011). However, the literature provides empirical evidence that HQs of MNCs entail globally standardised MCSs in foreign entities (e.g., Van der Stede, 2003) and that such MCSs impact decision-making processes in foreign subsidiaries (Mahlendorf et al., 2012). Conclusions based on corresponding evidence indicate that country-specifics in MCS diminish due to a convergence towards globally common sets of practices (Granlund and Lukka, 1998; Brandau et al., 2013).

On the other hand, studies that focus on the *actual usage* of global MCSs in foreign subsidiaries put the aforementioned conclusion into perspective. Obviously, the implementation of global MCSs does not necessarily imply a reproduction of management control practices established at the HQ level in the local. Instead, there is evidence that subsidiaries use local MCSs instead of those provided by the HQs when the latter are considered inappropriate for managing local business (e.g., Siti-Nabiha and Scapens, 2005; Dossi and Patelli, 2008). Contrarily, other studies reveal that local managers reshape global MCSs as they adapt them to the local context and employ them for the achievement of their own objectives (e.g., Barrett et al., 2005; Cruz et al., 2011). In light of this ambiguous evidence, further research that focuses on *how* global MCSs are used in subsidiaries and shed light on the *contingencies* that contribute to a reshaping, reproduction or rejection of global MCSs appears important to gather a more comprehensive understanding on the employment of global MCSs within MNCs, particularly when subsidiaries in emerging countries are involved (Merchant et al., 2011).

Our study addresses this gap by illuminating budget control in the relationship between HQs of MNCs located in Germany and subsidiaries operating in China. We argue that this focus is interesting for at least two reasons. First, China is the largest emerging market (O'Connor et al., 2011) and therefore strategically important for many Western companies. However, the Chinese setting differs from those of Western countries in multiple ways (i.e., culturally, economically, legally and politically) (Birnberg et al., 2008; Merchant et al., 2011). In light of this disparity, MCSs established in the HQ of a MNC and imposed on the Chinese subsidiary may not be readily accepted and used by the local managers (Tsui, 2001; O'Connor et al., 2011). In this way, we focus on a considerably more diverse setting than previous studies on the actual usage of global MCSs, which have involved Western countries only (Barrett et al., 2005; Cruz et al., 2011).

Second, we focus on budget control as an integral part of MCSs in Western companies (e.g., Covaleski et al., 2003; Libby and Lindsay, 2010) and as an important mechanism for governing foreign subsidiaries (Hassel and Cunningham, 2004). Yet, practitioners criticise budget control for its time-consuming compilation and little flexibility due to infrequent updates (Hansen et al., 2003). Therefore, the utility of budget control in a highly dynamic and volatile economy such as China appears questionable (Libby and Lindsay, 2010). Moreover, O'Connor et al. (2011) find that budget control is still in its infancy in Chinese companies, thus Chinese managers have limited experience with this approach. Against this background, it appears equivocal that our study may replicate the finding that local managers reshape global MCSs to pursue their own objectives (Cruz et al., 2011). In other words, we believe that our setting has the potential to complement previous research with different facets and further insights into the appropriation of global MCSs in local contexts. In this way, we also respond to calls for studies that provide deeper insights into the 'travelling' of MCSs in the context of globalisation (Baxter and Chua, 2003; Englund and Gerdin, 2014).

Our study is informed by the social theory on modernity by Giddens (1990), which refers to "social practices ordered across time and space" (Giddens, 1984, p. 2) and considers globalisation a 'time-space distinction' with dialectical features between the global and the local (Giddens, 1990, p. 19). From this perspective, globalisation is not a unilateral process that results in a homogenisation of practices. Instead, it acknowledges that globalisation provokes tension and opposing developments between the global and the local (Giddens, 1990, p. 19). For this reason, we rely on the writings by Giddens to make sense of our empirical findings. By doing so, our theoretical perspective complies with the one adopted in related papers (Barrett et al., 2005; Busco et al., 2006; Moilanen, 2008).

Our paper provides field study evidence collected in 23 dyads comprising a German HQ and one or several Chinese subsidiaries representing different industries and company sizes. Our

study provides evidence for the different paths of global budget control structures as they ‘travel’ within the MNCs studied. Our findings suggest that these paths are particularly contingent on the perceived utility of budget control structures in the local, which is interrelated with the perceived predictability of future developments. In turn, competitive intensity, market regulation and regulatory density influence the perceived predictability. Our study also reveals differences with regard to the anticipation and responses on part of the HQs that need to be considered in evaluating the paths of travelling of global MCSs in MNCs.

The remainder of the paper is structured as follows. In section 2, we develop our theoretical framework and elaborate on the travelling of global MCSs in light of Giddens’ notion of sociology of modernity. In section 3, we illuminate peculiarities of the environment of Chinese companies and discuss them with regard to budget control and against our theoretical background. In section 4, we explain our research design by outlining the process of data collection and analysis. We present our empirical findings in section 5 and discuss them in section 6.

2. Theoretical guidance

Giddens’ social theory of modernity is based on the concepts and assumptions of structuration theory. For this reason, we dwell on its core assumptions, which provide guidance for the investigation of budgeting control practices in different contextual settings. The corresponding notion of accounting as a social practice that is strongly embedded in its context (Roberts and Scapens, 1985; Jones and Dugdale, 2001) thus gives rise to the understanding of globalisation as a dialectical process between the local and the global.

2.1 Social systems and social structures

Giddens’ (1984, pp. 17 et seq.) understanding of social practices relies on the distinction between *social systems* and *social structures*. The first refer to situated practices performed by human actors, the latter to the underlying rules and resources that generate these practices.

Social systems and structures are closely interrelated as actors draw on the structures to produce social systems, while the structures themselves emerge from situated practices of social action (Englund et al., 2011). Thus, social structures and social systems presuppose each other (Englund and Gerdin, 2008). Relating these insights to the subject of our investigation, *budget control structures* comprise the rules and models for compiling and evaluating budgets. In this way, budget control structures provide an interpretative scheme to make sense of events and conduct. More precisely, actions and events are therefore “constantly evaluated in terms of expectations as to what should have happened” (Roberts and Scapens, 1985, p. 448). Moreover, budget control structures imply rewards and sanctions of particular forms of conduct and form a basis for resource allocation. In the terminology of Giddens (1984, p. 29), budget control comprises structures of signification, legitimation and domination (Englund et al., 2011; Englund and Gerdin, 2014).

Budget control practices¹ refer to the actual operation of budget control structures. In light of structuration theory, budget control practices emerge when human actors draw on the corresponding structural properties (Englund and Gerdin, 2008). However, as Giddens (1984, pp. 281 et seq.) considers human actors as reflexive and aware of the conditions for and consequences of their conduct, they may alter the corresponding structures (Englund and Gerdin, 2014). In other words, the transformation of budget control structures to budget control practices is dependent on a plethora of contingencies (Roberts and Scapens, 1985). Thus, budget control practices are strongly embedded in their respective contexts (Jones and Dugdale, 2001; Moilanen, 2008). This nondeterministic understanding between actual practices and the underlying structures appears particularly important for the question how budget control travels within MNCs, which will be theorised in the following.

¹ We do not refer to “budget control systems” as suggested by Giddens’ differentiation of social systems and social structures to avoid the misunderstanding that “budget control systems” might refer to technical features of budget control. Instead, we use the term “budget control practices” to emphasise that we refer to the actual operation of budget control structures by human actors.

2.2 Disembedding and reembedding in the context of globalisation

According to Giddens (1990, p. 64), globalisation implies the intensification of worldwide social relations via a time-space distinction as social practices in a particular place are shaped by distant social influences (Cruz et al., 2011; Englund and Gerdin, 2014). This distinction occurs through “disembedding mechanisms” that lift social structures out of their local context and recombine them in another (“reembedding”) (Englund et al., 2011). Budget control structures constitute such disembedding mechanisms. They may be removed from their local origin (i.e. the HQ of a MNC) and diffused to other places (i.e. the subsidiaries of a MNC), where they can be performed independently of their origin (Jones and Dugdale, 2001; Baxter and Chua, 2003; Cruz et al., 2011). In this context, the reembedding of the budget control structures established in the HQ implies that the local managers and employees of the subsidiaries get acquainted with the HQ’s objectives and requirements. As a consequence, the budget control structures provide an interpretative scheme that the local managers may use to make sense of their actions (Moilanen, 2008). At the same time, budget control enables the HQ to monitor its subsidiaries and to evaluate its performance as well as the performance of individual departments and managers (Jones and Dugdale, 2001).

In the terms of Giddens, the budget control represents an ‘expert system’ that stretches social systems across time and space (Giddens, 1990, p. 28). As human actors (i.e., the local managers) are reflexive and deliberate on the expert systems’ implications, the travelling of the budget control structures does not necessarily imply that the budget control practices established in the HQ are locally *reproduced* (Englund et al., 2011; Englund and Gerdin, 2014). Instead, locals can *reshape* or even *reject* budget control structures when they appear inappropriate in the local context, imply design faults or may imply unintended consequences (Jones and Dugdale, 2001; Barrett et al., 2005; Cruz et al., 2011). Therefore, expert systems depend on trust (Giddens, 1990, p. 33). In particular, as the locals usually understand the

technicalities of an expert system only partially, they need to have faith in the operational capability of the system (Giddens, 1990, p. 83). Strongly intertwined with such ‘abstract trust’ is the ‘trust-in-persons’, which refers to the intentions of the human actors operating the expert system.

A small stream of the literature on the actual usage of MCSs established in HQs in their subsidiaries provides empirical evidence that corresponds with these theoretical insights. For instance, Siti-Nabiha and Scapens (2005) shed light on the introduction of a value-based management (VBM) approach in an East Asian company imposed by its parent company. They observe considerable resistance by the staff of the subsidiary to draw on the corresponding key performance indicators (KPIs) in operational decision-making. As a consequence, obligations to report KPIs to the parent company were fulfilled; however, the KPIs did not affect the decisions made and actions taken in the subsidiary. In other words, the reembedding of the structures imposed by the parent did not lead to a reproduction of practices, but to a *rejection* due to the lack of de facto impact on decision-making. In contrast, Barrett et al. (2005) study the implementation of a global audit system in a Big Four audit firm and conclude that while all offices in the audit firm applied it, practices and attitudes differed between the sites. More precisely, the auditors considered different local knowledge and institutions in applying the global audit system. In this way, they did not reproduce the imposed practices either, but *reshaped* them. Similarly, Cruz et al. (2011) investigate how local managers of a Portuguese joint venture reembedded the MCS entailed by one of its parents. They show that the local managers *reshaped* the globally standardised tools to pursue their own objectives in addition to those of the parents. As a consequence, these authors conclude that variety – as a result of local adaptations – enables the embedding of global MCS in local contexts in the first place.

Taken together, these findings underline the complexity inherent in the reembedding of distant social structures in different contexts. More precisely, global management control struc-

tures may be reproduced (as implicitly assumed by papers analysing the dissemination of particular management accounting devices), reshaped by adjusting global management control structures to local circumstances or rejected due to the unintended consequences or inappropriate features. Against this background, a closer investigation of contingencies appears crucial in determining the foreign subsidiaries' responsiveness to global MCS. Such knowledge in turn may guide decisions of MNCs whether MCS should be customised to the local circumstances of their foreign subsidiaries (Birnberg et al., 2008). Therefore, we intend to complement the outlined literature based on a comparative analysis of budget control practices in the relationship between German HQs and Chinese subsidiaries of MNCs. We illuminate this relationship from both perspectives, i.e. from the German HQ and the Chinese subsidiaries. This setting allows us to integrate highly diverse settings in economic, political and cultural terms and thus to complement the previous literature on the globalisation of MNCs which has involved countries with less distinctive environmental settings. While the field study approach implies that the accounts of the individual companies are not as detailed as those provided by previous case studies, our comparative perspective allows us to gather a deeper understanding of the contingencies that contribute to a reshaping, reproduction or rejection of budget control structures in local contexts that differ considerably from those of the HQ. These differences will be outlined in the following section.

3. Environmental setting

3.1 Characterising the local context of Chinese subsidiaries

In light of the emphasis that our theoretical approach places on the local context regarding the path and impact of globalisation, we briefly shed light on the Chinese business environment in the following. The main idea behind our considerations is that a reshaping or rejection of global budget control structures (instead of a reproduction) is potentially reinforced by large disparity between the context, in which the global budget control structures have been estab-

lished and the local context, in which they are reembedded (Lin and Yu, 2002; Efferin and Hopper, 2007). As a consequence, our investigation focuses primarily on the environmental setting of Chinese subsidiaries. For this reason, we draw on the framework by Haka and Heitger (2004) and briefly discuss economic, political and legal as well as cultural peculiarities of the Chinese business environment (cf. Gernon et al., 2001; Gray et al., 2001), to which we will refer in the further course of our study (for a comprehensive overview on the historic background see Chow et al., 2007).²

In terms of economic development, China experienced three decades of considerable economic growth, mostly with double-digit annual growth rates as outcome. As a consequence, many European companies have entered the Chinese market, leading to intense competition (Euromonitor International, 2013), particularly in consideration of decreasing growth rates in recent years. The intense competition delivers a sharp contrast to central economic planning that had been abandoned in the late 1970s only. As a consequence of the economic system, the development and dissemination of sophisticated management accounting systems was limited (Chow et al., 2007; Wu et al., 2007). China's political and legal environment is considerably different from those established in Western countries. Historically, China neither possessed a clearly codified legal system nor political institutions that have been legitimised on a democratic basis. Instead, China's socialist tradition led to a government that possessed nearly all available properties and prohibited its citizens from getting involved in business transactions (Zhang, 2006; Xueli, 2009). However, since the beginning of its open-door policy (1979), legal reforms have taken place rather quickly in China. Still, Chinese authorities are claimed to act inconsistently when implementing legal reforms and courts' spheres of responsibility are not clearly defined (Betancourt and Krug, 2009). For this reason, the legal and

² We exclude the fourth dimension "infrastructure sophistication" from our analysis as it primarily affects contracting choices and corresponding cost accounting approaches and seems less important in the context of budget control (Haka and Heitger, 2004).

political environment in China is a major source of uncertainty, complexity and arbitrariness (Xueli, 2009).

In line with previous research (Endenich et al., 2011; Merchant et al., 2011), we use Hofstede's cultural dimensions to sketch the cultural environment of Chinese firms. According to Hofstede and Hofstede (2005), China is a country with high power distance, implying that it is characterised by strong hierarchies, a solid belief in the qualities of leaders and a high acceptance of formal authority and centralisation of decision-making authority (Merchant et al., 1995; Chow et al., 1999; Harrison and McKinnon, 1999). Moreover, China is a collectivist country, implying that Chinese distinguish between members of their personal social networks and outsiders. Within their networks, they prioritise group interests and put emphasis on sound interpersonal relationships (Merchant et al., 1995; Harrison and McKinnon, 1999). Thus, they show reciprocity in their actions and contribute to the well-being of other group members. China shows low uncertainty avoidance which implies that Chinese feel comfortable with ambiguities, are willing to assume risks and interpret rules flexibly (Hofstede and Hofstede, 2005). Finally, China's considerable masculinity indicates that material achievements and a sense of competitiveness are of major importance (Merchant et al., 1995; Merchant et al., 2011).

3.2 Conjectures concerning the reembedding of global budget control structures in the local context of Chinese subsidiaries

We conclude our theoretical considerations with a short reflection of the previously outlined environment, in which Chinese subsidiaries operate and conjecture its implications for the reembedding of global budget control structures at the local level. Given that the economic developments as well as the legal and political environment imply a high degree of environmental uncertainty, the applicability of budget control appears equivocal. High environmental uncertainty implies a low predictability of future events (Ezzamel, 1990). Therefore, budgets

– particularly in light of their inflexibility and infrequent updates (Hansen et al., 2003) – are likely to become quickly outdated (Libby and Lindsay, 2010).

We argue that this potential “misfit” between global budget control structures and the local context represents an interesting point of departure for our investigation. While budget control seems to be increasingly implemented in Chinese firms (Chow et al., 2007), it still appears in its infancy (O’Connor et al., 2011). Moreover, field evidence indicates that management accounting tools are at times de-coupled from actual decision-making and passively used for legitimisation only (O’Connor et al., 2011). In light of Giddens’ (1990, p. 38) notion of reflexivity, actors constantly examine social practices and may assimilate them. Thus, locals do not necessarily reproduce global management control structures at the local level, but may reshape or reject them (Barrett et al., 2005; Siti-Nabiha and Scapens, 2005; Cruz et al., 2011). For this reason, we consider a multitude of budget control practices in the local possible. Moreover, Chenhall (2003) emphasises that MNCs may opt to refrain from transferring their domestic management control structures to foreign subsidiaries, but to redesign them to fit local characteristics. Against this background, we contend that our research setting – and our dyadic research design in particular – has the potential to provide multi-faceted insights into the travelling of MCSs within MNCs. In particular, our study addresses two research questions:

- First, do the HQs studied impose global budget control structures on their Chinese subsidiaries?
- Second, how are global budget control structures reembedded at the subsidiary level?

4. Method

Our study intends to make sense of the travelling of budget control structures between the German HQs and Chinese subsidiaries of MNCs. In this context, we are particularly interested in comparing rationales for standardisation or local adaption of budget control structures from

the HQ's perspective as well as in comparing the perception and utilisation of these structures in the Chinese subsidiaries among a range of companies to shed light on important contingencies that impact the paths of travelling. For this reason, our study relies on a cross-sectional field study approach (Lillis and Mundy, 2005). On the one hand, field studies facilitate the exploration of management accounting practices in consideration of a plethora of factors that influence them (Merchant and Van der Stede, 2006). On the other hand, the simultaneous investigation of multiple organizations allows us to detect patterns in our observations (Lillis and Mundy, 2005) that provide insights into the contingencies of globalisation of MCSs.

Our study relies on dyads from 23 MNCs, each consisting of the German HQ and at least one Chinese subsidiary. As we are particularly interested in understanding the impact of environmental factors on the travelling of budget control structures, companies from diverse business sectors were selected. Thus, our case companies represent seven different industries (automotive, consumer goods, technology and electronics, raw materials and energy, chemical, mechanical engineering and services). Each MNC has a minimum of 1,500 employees and generates a turnover of at least 500 million Euro. The case companies reflect considerable ranges with regard to the numbers of employees (from approximately 1,500 to more than 100,000 employees worldwide) and turnover (from approximately 500 million Euro to more than 50 billion Euro). Finally, the case companies represent different regions in China, such as Shanghai City, Jiangsu Province, Beijing City, Hong Kong, and Guangdong Province as well as less frequented locations, such as Hunan and Shaanxi.

Data were primarily collected during 58 semi-structured interviews with 78 company representatives, i.e. management accountants and managers, in German HQs and Chinese subsidiaries. Thus, we conducted between two and five interviews per MNC to account for different perspectives on the issues under study. These interviews were complemented by analyses of internal documents on the budget control structures. On average, the interviewees have been

affiliated with the respective company for 8.5 years. We pre-tested the interview guide comprehensively with scholars, practitioners working in MNCs, business consultants, a Sinologist and a Chinese management coach.

We conducted interviews with management accountants and managers responsible for designing budget control structures at the HQ level to gather an understanding of the design of and the rationales behind the budgeting approach. In this context, particular emphasis was placed on the issue of standardising budget control structures in Chinese subsidiaries. Moreover, the reception of budget control practices in the Chinese subsidiaries from the HQ's perspective was part of the interviews. Interviews at the subsidiary level were conducted to illuminate how the locals perceived the budget control structures imposed and how budget control was utilised in the respective subsidiaries. Thus, the interviews at the HQ level primarily refer to the global budget control structures, whereas the interviews at the subsidiary level focus on the local budget control practices. In both series of interviews, we considered the environmental setting, as it may impact the paths of travelling of budget control structures.

All interviews were conducted onsite in Germany and China with the exception of three interviews that were conducted on the phone. With very few exceptions, all interviews were recorded and transcribed. If the interviewees did not agree on tape-recording, detailed notes were taken during the interviews. The average duration of the interviews was 75 minutes. All interview transcripts and notes were subject to a content-analysis (Krippendorff, 2013; Yin, 2014), which allows a systematic analysis of the data. Based on a comprehensive category scheme, we structured and condensed the interview transcripts. Subsequently, the data was subject to cross-case analyses to facilitate comparisons among the case companies and to identify commonalities and differences. Based on the patterns of utilisation identified, we grouped the companies according to findings that provide an indication of reshaping, reproduction or rejection of budget control structures as outlined in the following.

5. Findings

In the following sections, we present our empirical findings. In a first step, we turn to the HQs of the MNCs participating in our study and elaborate on their rationales to standardise or adjust the respective budget control structures locally. In a second step, we distinguish three groups of companies and provide evidence for a rejection, reproduction and reshaping of budget control structures at the subsidiary level.

5.1 Disembedding budget control structures at the global level

Our first research interest refers to the question whether the HQs implement globally standardised budget control structures in their Chinese subsidiaries. In this regard, our interviews reveal two major tendencies. On the one hand, the interviewees are aware of the strong dynamics of the Chinese market that compound budget forecasts. For instance, one interviewee states that “setting appropriate assumptions is the critical issue in budgeting and this is very difficult in a market as volatile as the Chinese” (CFO, Mechanical Engineering, HQ).³ In addition to market volatilities, the interviewees particularly refer to the “considerable impact by the government” (General Manager, Technology/Electronics, SUB), for instance in terms of competitive constraints or the sudden introduction of additional taxes.

On the other hand, the interviewees frequently stress the importance of implementing globally standardised budget control practices as exemplified by the following statement: “We apply group standards; we need to plan more than 100 entities and are thus unable to make structural exceptions. [...] As soon as figures from one country do not fit, you are apparently unable to consolidate them” (Head of Management Accounting, Raw Material and Energy, HQ). Standardised procedures are thus considered important in light of complexity avoidance as well as for the consolidation and integration of entities: “We need to speak the same language, which occurs automatically when the same templates are used” (Head of Accounting and

³ The acronym “HQ” indicates that the interviewee is a representative of the German headquarter of the respective country, whereas “SUB” indicates a representative from a Chinese subsidiary.

Management Accounting, Mechanical Engineering, SUB). For this reason, the HQs participating in our study disembed particular budget control structures established in the HQ, which comprise guidelines and handbooks, templates for data input and particular planning parameters (e.g., exchange rates) as well as time schedules. These structures are enforced in all subsidiaries including the Chinese ones, which appears important to guarantee their viability: “If you accommodate exceptions [to group standards], you jeopardize the entire processes and the employees’ understanding for it.” (Corporate Director Reporting and Management Accounting, Consumer Goods, HQ).

However, in some companies, these standardised structures are complemented by informal exchanges about expected market developments prior to the preparation of budgets or via provision of background information: “The planning process is the same for all subsidiaries, there are no exceptions for the Chinese subsidiary. However, there is a difference in the amount of additional information that we request.” (Group Vice President Corporate Finance, Technology/Electronics, HQ). While our interviews reveal a considerable consensus on the appropriateness of lifting budget control structures out of their local context and transferring them to the subsidiaries, experiences whether the travelling of these structures lead to a reproduction of budget control practices diverge among the companies. We elaborate on these facets as well as on the different ways of handling these issues – correspondingly with our second research question – in the following. As previously outlined, we divide our case companies into three groups, which will be characterised in the following sections.

5.2 Rejecting global budget control structures

In the Chinese subsidiaries that belong to the companies of the first group, the reembedding of global budget control structures did not result in a reproduction of budget practices. Instead, we conclude that the local managers rejected the structures imposed. From the HQs’ perspectives, this rejection became apparent in various ways. In one sample company, for instance,

inconsistencies occurred as “the material budget was incorrectly derived from the sales budget” (Head of Accounting and Management Accounting, Consumer Goods, HQ). In another company, the locals adopted growth targets suggested by the HQ without further reflection, due to their “reluctance to make assumptions about the future development, because these assumptions may be misguided” (Executive, Mechanical Engineering, SUB). The passive adaptation of these targets contradicted the HQ’s intention to specify their initial targets by relying on the locals’ edge in knowledge of market potential. Another company made a similar experience in the context of a budget cut: “We informed the Chinese entity that they had to cut their budget by 10 million Euro. As a consequence, we received a revised budget with a 10 million cut. However, subsequent discussions revealed that the managers were widely unaware how to save the amount effectively” (Group Vice President Corporate Finance, Technology/Electronics, HQ). We argue that these examples indicate a rejection of budget control structures, given that budgets are prepared and submitted to the HQ, however, they seem to have little impact on de-facto decision-making in the Chinese subsidiaries. In other words, the global budget control structures do not seem to be operated in the way intended by the HQ.

Our interviews, both at the HQ and subsidiary level of these MNCs, provide a series of factors related to the passive compliance with the budget control structures established by the HQ. First, the companies experiencing a rejection of budget control structures mostly had entered the Chinese market within the last decade. As a consequence, the HQs cannot draw on decades of experience concerning the development of sales. From the HQs’ perspective, the Chinese market thus was frequently perceived as a “black box” with regard to the anticipation of future developments. According to the interviewees from the HQs, budget control was considered important to gain an understanding of the market. However, the attempts to gather insights on how the market works were challenged by the passive attitude of the locals concerning budget control. Correspondingly, our interviewees from the subsidiary level explained the difficulties of convincing local employees of budget control despite the uncertainty “how

the market works, how market demands and competition evolve” (Head of Corporate Planning and Reporting, Automotive, SUB). In these companies, building trust among the locals in budget control was particularly challenged by highly volatile growth rates: “Sales may go up by 20 percent in one year and 60 or 70 in the next. With a low market share, such variation is possible” (Head of Accounting and Management Accounting, Consumer Goods, HQ). The issue of volatility in market demands as opposing mechanism regarding a high acceptance of budget control structures was also brought forward by an interviewee, who compared the budgeting processes between a German and a Chinese entity: “In Germany, we usually iterate until the budget gets approval from everyone involved. In China, we do not have that much time. Therefore, we prepare budgets in many cases without involving the respective departments. That is, we grant a budget and accept deviations only if they are proficiently justified” (Head of Management Accounting, Technology/Electronics, SUB). Our interviewees linked the locals’ lack of experience with budget control mostly with China’s history as a centrally planned economy, which contravened the relevance of sophisticated planning tools for individual companies. In this context, the interviewees also mentioned that the locals tend to prioritize “short-term developments instead of the company’s long-term vision” (General Manager, Technology/Electronics, SUB), suggesting that cultural aspects are involved as well.

Second, the companies experiencing a rejection of budget control structures primarily operate in industries (e.g., automotive, technology and electronics) with high competition and regulatory interventions, which negatively affects forecast ability. Our field data suggests that the steady emergence of new competitors increases the environmental uncertainty as perceived by locals, which in turn lowers the perceived benefits of budget control in the Chinese subsidiaries. Concerning regulatory interventions, our interviews indicate a fast, at times hasty implementation of initiatives that makes predictions more difficult. For instance, one interviewee refers to the limit of 20,000 car registrations per month set by Beijing City as an example, “which was announced only a month in advance” (Head of Accounting and Management Ac-

counting, Mechanical Engineering, SUB) and had considerable unanticipated consequences for budget achievement.

The companies subsumed under the first group resemble each other concerning the way in which they attempt to solve the tension between the high emphasis placed on budget control structures by the HQs on the one hand and the absent reproduction of corresponding budget control practices at the subsidiary level on the other. Due to the rejection of budget control structures on part of the locals, these companies mostly delegated expatriates, i.e., German employees, in senior positions in the accounting and finance departments. The main rationale behind this step is “the know-how transfer, complemented by the advantage that we know each other, which facilitates communication” (Head of Finance and Accounting, Raw Materials and Energy, HQ). Irrespective of these commonalities, the personnel structure differs between the sites – e.g., one case company delegated a German senior management accountant who is supposed to “challenge” the Chinese managing directors, whereas another dispatched Singaporeans due to the potential to unite Chinese and European mentalities. This uniting potential indicates that the expatriates mostly serve as “mediators” or “instructors”, who are supposed to broaden the understanding among the locals “what a German firm thinks and how it works” (Executive, Mechanical Engineering, SUB). Still, the interviewee from the respective subsidiary is - even after working in China for several years - responsible for “up to 80 percent of all planning”.

5.3 Reproducing global budget control structures

Based on our field data, we distinguish a group of case companies, for which we find evidence for a reproduction of budget control structures in the Chinese subsidiaries. This conclusion is not only based on statements from the representatives at the HQ level indicating that budgets submitted by the Chinese subsidiaries appear consistent and elaborated. Moreover, the interviewees at the subsidiary level themselves frequently underline the relevance of

budget control for the management of the respective entity as an interpretative scheme to make sense of events and the employees' actions. For instance, one interviewee explains that "the budget is key for the management" (Head of Finance and Accounting, Consumer Goods, SUB), while another appreciates budget control as it facilitates "active communication" (Managing Director, Services, SUB) between the individual departments. Our field data indicates that in this group of case companies, budget control structures are locally reproduced insofar as budgets reflect a substantiated anticipation of future developments that serves as guidance for resource allocation and operational decision-making.

Our findings suggest that— compared with the first group – the considerably different response to the budget control structures at the subsidiary level is a consequence of both, particularities of the structures themselves as well as the peculiarities of the business environment. With regard to the budget control structures, we find that the budgeting process follows in both groups mostly a counter-current approach as the HQ defines targets, while the subsidiaries prepare detailed budgets that are intended to comply with the given targets. However, the HQs from the first group seem to define targets more autonomously and mostly consult their subsidiaries for reassurance of an already specified goal only. In contrast, the interviewees representing the HQs from the second group frequently emphasise the timely involvement of locals to ensure their goal commitment as indicated by the following statement: "Obviously, we have a clear vision of our company's development. Nevertheless, we won't develop a budget without the approval of the local management. We develop budgets in close alignment with the local management, which means that in cases, in which the local management considers targets as difficult to obtain, we search for compromises and evaluate carefully how distant we are from each other" (Business Unit Management Accountant, Chemicals, HQ).

In addition to the stronger involvement of locals in budget preparation, our findings suggest that the HQs tend to take more account of the higher environmental uncertainty in China by

being more tolerant concerning budget deviations as compared to other subsidiaries as the following example shows: “The market volatility is a lot higher in China. Thus, we are unable to plan to the last detail. In Germany with a sales growth of 3 or 5 percent, a one percent deviation is a lot, but we are all aware that we cannot be as precise in China” (Management Accountant, Technology/Electronics, SUB). For this reason, the HQs tend to compromise more on budget accuracy than in other places. Similarly, the HQs mostly do not require the same planning depth as with other countries: “Depending on the local circumstances, budget planning is more or less detailed. Thus, the subsidiaries decide on the planning depth on their own” (Head of Accounting and Finance, Raw Materials and Energy, HQ). As a consequence of such latitude, some of the subsidiaries plan at the level of product groups instead of single products. Our findings indicate that due to these simplifications the locals consider the budget control structures more useful under consideration of costs and benefits as compared to the firms experiencing a rejection. Such assessments thus contribute to a reproduction of budget control structures.

A further particularity refers to the linkage of budget targets and financial incentives. The MNCs subsumed under the second group mostly pay bonuses in case of target achievement or at least target rapprochement. This linkage is intended to contribute to an active utilisation of targets in these firms, given that “performance-related compensation has a somewhat higher priority in China than in Germany and it is thus more closely tied to budget achievement” (Management Accountant, Technology/Electronics, SUB). Correspondingly with the aforementioned high masculinity in China, a couple of companies adjusted the compensation scheme according to this particularity. In this context, the interviewees also repeatedly referred to a “low identification with the company” and the corresponding “high willingness to change the employer when a more attractive salary is offered” (Senior Business Management Accountant, Automotive, HQ). Therefore, the linkage of budgets and incentives is obviously intended to strengthen employee loyalty and budget adherence simultaneously.

Our findings suggest that these peculiarities imply a higher acceptance of budget control structures among the locals, resulting in a reproduction of these structures. Most notably, the reproduction was achieved with a considerably lower involvement of expatriates from Germany. This finding contrasts the tendency observed in the first group of companies. The latter mostly sent professionals abroad for an indefinite period and considered German employees in senior positions at the subsidiary level a durable solution. However, according to the interviewees belonging to the second group, locals are essential in senior positions “due to their familiarity with the cultural context and for communication at sites” (Business Unit Management Accountant, Chemicals, HQ). For this reason, expatriation was considered only temporarily or not at all: “Our expatriates are supposed to build a local team, which gains requisite knowledge and thus gradually supersedes the expatriates” (Managing Director, Services, SUB).

Our interviews suggest that – in addition to the aforementioned particularities of the budget control structures – some environmental factors foster the reproduction of budget control structures as well. First, the corresponding companies tend to operate longer in China as compared to the firms from the first group. Due to their experiences with the Chinese market environment and dynamics, future developments thus tend to appear more predictable as for the firms of the first group. For instance, one interviewee states that “inaccuracies and predictability are closely related with an organization’s level of maturity” (Head of Management Accounting, Raw Materials and Energy, SUB). Moreover, these companies tend to be faced with less competition as they usually seek and occupy niches. For instance, these companies position their products in high-price segments because of their “technical advantages that we expect to be reflected in prices” (Business Unit Management Accountant, Chemicals, HQ). According to our interviewees, moving into such niches enables the companies to avoid competition with local firms in the low-price segment. Our findings suggest that occupying such niche

positions in turn lowers the perceived uncertainty of their environment and thus increases the applicability of budget control structures towards their reproduction.

5.4 Reshaping global budget control structures

The two previously characterised groups of firms are complemented by a third, which comprises firms that mostly resemble those from the first with regard to their environment. These firms also tend to operate in growth sectors of the Chinese economy, such as technology or electronics, implying a considerable degree of environmental uncertainty and corresponding difficulties regarding the predictability of future developments. Accordingly, the applicability and convenience of budget control were mostly negatively evaluated among the locals participating in our study. In a similar vein as in the firms from the first group, our interviews argued that a “tension between global guidelines and local peculiarities” (Financial Executive Officer, Mechanical Engineering, SUB) was shared by most locals. Correspondingly, budgets used to be considered “more a yard stick to measure the overall performance” (Head of Accounting, Mechanical Engineering, SUB) than a binding target.

However, unlike in the case of the firms from the first group, the global budget control structures were not rejected at the subsidiary level. Instead, the executives and management accountants in charge at the local level refined the imposed global budget control structures and advanced them towards a rolling forecast approach to account for the higher volatility experienced in the Chinese context. The interviewees paraphrase such endeavours as a “tailor-making of the global budgeting approach”. In these subsidiaries, budget proposals for the forthcoming fiscal year are submitted to the HQ at fixed times. In a further step, such proposals get disaggregated to months at the local level and are subject to frequent monitoring. Potential deviations are used for updating predictions about the future development, either quarterly or monthly. In most firms, deviations do not directly trigger “a budget revision, instead forecasts serve to track the business development and to take appropriate countermeas-

ures” (Vice President Finance and Accounting, Chemicals, SUB). However, if budgets appear no longer attainable, rolling forecasting facilitates reconciliations with the HQ and corresponding budget revisions. In this way, the budget control structures become less rigid and more adaptive to the environment. Our field data suggests that forecasting current developments therefore implies for most interviewees an “improved responsiveness in the context of the volatile Chinese market” (Financial Executive Officer, Automotive, HQ). In this way, the global budget control structures are reshaped and adjusted to the local contexts. According to our interviewees, this reshaping increased the attention paid by the locals to budgets in managing the subsidiaries, thus making budget control more effective.

Our interviews provide ambiguous evidence with regard to the role of expatriates in the processes of reshaping. In particular cases, European expatriates were delegated and contributed to the reshaping. However, in most firms, the reshaping was triggered by locals. In the latter case, the interviewees stressed the importance of a “Western education” (e.g., Head of Group Management Accounting, Technology/Electronics, HQ), implying that experiences abroad and the knowledge of advanced budget control structures acquired in this way contribute considerably to recognising the importance of budget control as well as to the reshaping.

Whereas in some case companies, rolling forecasts are compiled for internal purposes only, i.e. updates are not submitted to the HQ outside the budget control structures, the reshaping in the local impacts in other companies the budget control structures at the global level. That is, in some cases, the HQs request submission of locally compiled forecasts although they have not been part of the initial budget control structures established by the HQ. In another firm, the rolling forecast approach established in China was even imposed by the HQ on its subsidiaries in other emerging markets due to similar problems experienced as in the Chinese setting. Therefore, our study provides some evidence for a retroactive effect from the local to the global.

In light of our data, we argue that the reshaping was substantially triggered by the strategic priority attributed to the market performance in China and the corresponding achievement of budget targets on part of the HQs. As a tendency, the companies from the third group entered the Chinese market earlier than those from the first and strengthened its market position to participate disproportionately in market growth. In this context, the interviewees frequently stressed the “strategic relevance” (Managing Director, Automotive, SUB) or the “strong growth potential” (Head of Group Management Accounting, Technology/Electronics, HQ), which corresponds with tight budget control structures imposed by the HQs. Our field data suggests that the strong emphasis placed on achieving budget targets on parts of the HQ was particularly reinforced by the high power distance prevailing in China impinges. For example, one interviewee explains that the Chinese tend to “hold the superior in esteem and do not contradict” (General Manager, Automotive, SUB). Similarly, another interviewee underlines the subsidiary’s commitment to provisions by the HQ: “We cannot say some requirement from the group is not applicable or useless for the local management” (Financial Manager, Technology/Electronics, SUB). Against this background, we conclude that the locals were aware of the limited applicability of the “rigid” budget control structures in the dynamic Chinese setting. However, endeavours to share concerns regarding the “misfit”, in conjunction with the high pressure to achieve budget targets exerted by the HQs, initiated the reshaping of budget control structures. The reshaping has in turn increased the impact of budget control on local managements as illustrated by the following statement: “The budget is always the guidance in our daily operation, we try to avoid big deviations and to meet the target of the company” (Management Accountant, Consumer Goods, SUB). In summary, our findings indicate commonalities between the companies from the first and third group, yet we find that the reembedding of the global budget control structures follows considerably different paths in these companies. These differences are obviously driven by the emphasis placed on budget achievement as well as the locals’ experience with both the market as well as budget control.

In this way, our findings shed light on the interdependencies between notions and expectations at the global and the local level.

6. Discussion

This paper provides insights into the paths of global MCSs as they travel between two distinctive environmental settings. Drawing on Giddens' social theory of modernity, we theorised that the disembedding of global budget control structures out of the German context and their reembedding in the considerably different Chinese context does not necessarily lead to a reproduction of structures. Given the reflexivity of the local actors, budget control structures may as well be reshaped or rejected. Based on a comparative analysis of dyads of German HQs and Chinese subsidiaries, our study therefore intends to advance our understanding concerning the contingencies that impact the reembedding of global budget control structures in the local. Table 1 summarizes the main findings for each of the previously distinguished groups.

	Group 1 Rejection	Group 2 Reproduction	Group 3 Reshaping
Disembedding at the global level	High emphasis placed on implementation of globally standardized budget control structures	Implementation of globally standardized budget control structures with slight modifications in consideration of local particularities	High emphasis placed on implementation of globally standardized budget control structures
Rationale for disembedding at the global level	Consolidation and planning purposes, intention to gain an understanding of the market	Consolidation and planning purposes, commitment of locals for target achievement	Consolidation and planning purposes, reinforcement to achieve budget targets in the strategically important Chinese market
Reembedding at the local level	Rejection of globally standardized budget control structures as indicated by inconsistencies, unconsidered adoption of targets	Reproduction of globally standardized budget control structures as indicated by active usage as guidance for resource allocation and operational decision-making	Reshaping of globally standardized budget control structures as indicated by their advancement towards rolling forecasts
Rationale for reembedding at the local level	Low perceived utility of budget control due to low perceived predictability of future developments due to limited	Compared to group 1, higher perceived convenience due to simplifications and higher perceived predictability of	Similarly to group 1, limited perceived applicability of rigid budget control due to high degree of environmental un-

level	market experience, emergence of new competitors and short-term regulatory interventions	future developments due to advanced market experience and lower competition due to occupation of niches	certainty; advancement towards rolling forecasts to track business developments more tightly and to take counter-measures more timely
Consequences	Delegation of expatriates for know-how transfer and raising awareness for the importance of budget control	Avoidance of rejection by stronger involvement of locals in budget preparation, simplifications concerning planning depth and provision of financial incentives in case of budget adherence	Occasionally transfer of re-shaped budget control structures to foreign entities in similarly volatile environments

Table 1: Summary of main findings

In making sense of our findings, we consider Giddens’ notions of trust as integral part of his social theory of modernity particularly helpful. Giddens (1990, p. 87) stresses that the reembedding of social structures is heavily dependent on trust. Given the setting of our study, we argue that we need to distinguish two levels, on which ‘abstract trust’ is required. First, the actors at the HQ level need to have faith that particular structures have the potential to get reproduced in a different setting to disembed them in the first place. Second, the actors at the local level need to have faith in the operational capability and the convenience of these structures at the local level to reproduce them effectively.

Concerning the HQ level, our illumination of the first research question – whether HQs impose global budget control structures on their subsidiaries – reveals that the representatives had ‘conditional’ abstract trust. On the one hand, our interviewees signalled a substantial awareness that the applicability of the budget control structures is likely to be considerably lower in China due to the corresponding high environmental uncertainty than in other countries and Germany in particular, where the structures were established. Using the notions of Giddens (1990, p. 151), the HQ representatives were aware that the disembedded structures are likely to imply some “design faults” from the Chinese people’s perspective. On the other hand, these structures were nevertheless disembedded for other reasons, particularly for consolidation, reduction of complexity and to establish comparability among subsidiaries, but

also to understand the Chinese markets. Thus, it was a common notion among the interviewees from the HQ level that these objectives and rationales would justify the disembedding of the budget control structures after all. Therefore, we argue that the disembedding signals initial trust at the HQ level that the structures would be reproduced in the local due to the MNCs' higher level coercions recognized by the locals.

However, the interviews conducted at the local level to answer the second research question reflect the dialectic inherent in processes of globalisation and provide evidence for the reflexivity of human actors as suggested by Giddens (1990, p. 38). In light of our findings, we conclude that the abstract trust placed by the locals on the disembedded budget control structures depends considerably on the perceived utility of these structures. If the locals had faith that the budget control structures constitute a helpful device for managing the subsidiary, the structures were reproduced or, in some cases, even reshaped and constituted a de facto interpretative scheme to make sense of events and conduct. If this trust was missing, budgets were prepared to comply with the HQ's requirements only, implying no de-facto impact on managing the subsidiaries. While Cruz et al. (2011) conclude that management control structures were reshaped in their case site as managers used them to pursue their own objectives, we argue that trust in the utility of global budget control structures constitutes a prerequisite for locals to reproduce them in the first place. In these cases, budget control structures were used instrumentally by guiding decision-making and shaping the locals' interpretation of their environment and the subsidiary's development (Burns and Scapens, 2000; Siti-Nabiha and Scapens, 2005). Thus, we conclude that MNCs are well-advised to explore their foreign employees' perception of global management control structures to ensure that they are not institutionalised for 'ceremonial' purposes only. At the same time, we suggest that future research concerned with the travelling of global MCSs should take the locals' perception of the utility

of structures into account to advance our understanding how global MCSs travel within MNCs.

In the case of budget control structures, the perceived utility appears to be largely dependent on the predictability of future developments, which in turn is influenced by a series of factors as outlined in the following. Our findings indicate that the predictability and perceived utility was particularly derogated in companies in intensive competition and with limited market experience as well as high regulatory density. In these settings, a rejection or reshaping of budget control structures was particularly likely in the case companies. Therefore, our findings allow us to specify our expectations that the environmental setting contributes considerably to the paths of reembedding global management control structures in the local. We consider this specification a helpful insight for both practitioners and researchers. In addition, our interviewees revealed at times a lack of anticipation of future developments on parts of the Chinese employees, which may be explained with the low uncertainty avoidance (Hofstede and Hofstede, 2005) as well as a limited experience with modern management accounting instruments as a consequence of China's economic history as a planned economy (e.g., Chow et al., 2007). While less distinctive for the paths of travelling in our merely Chinese setting, we conclude that cultural and historical aspects have the potential to impact how global management control structures are reembedded in the local. In summary, our study provides evidence that complex interdependencies between environmental factors suggested by Haka and Heitger (2004) have a substantial impact on the perceived utility of budget control structures and thus on their paths of travelling.

In addition to exploring environmental factors that impact the travelling of MCSs within MNCs, our study also reveals the different ways chosen by the case companies to deal with this issue. Most notably, the companies subsumed in the first group lost their abstract trust in the functional capability of the system on its own by dispatching German employees to their

Chinese subsidiaries indefinitely. In light of Giddens' (1990, p. 88) distinction of "trust in systems" and "trust in persons", we conclude that the companies intended to restore their deteriorating abstract trust by entering into "facework commitments" with German employees, assigning them the task to force the reproduction of structures at the local level. In contrast, the companies from the second group maintained their abstract trust, yet tried to adjust the budget control structure to the local circumstances without undermining it. More precisely, the timely involvement of locals in the budgeting process to ensure their goal commitment and the linkage of financial incentives with budget targets reflect these endeavours. In light of these findings, we argue that adjustments, which are still compatible with the general budget control structures, may reinforce a reproduction of the structures in the local. This observation underlines that the travelling of global MCSs does not follow a unilateral process. Instead, considering if global management control structures can be slightly modified to local peculiarities without jeopardizing its global usability may contribute to a reproduction of the structures.

In summary, our findings indicate that both the environmental setting and the HQs' actions need to be considered in evaluating the paths of travelling of global MCSs in MNCs. In particular, our study contributes to a specification, which environmental particularities should be considered in this setting. While we believe that our study provides interesting insights into these processes, we need to acknowledge some limitations. First, our study is subject to the common limitations inherent in a field study approach. While we consider the comparative analysis of multiple case sites valuable for our research interest, the depth of analysis is apparently lower as compared to a single case study approach. Second, given our distinctive setting, we are focusing on environmental peculiarities that impact the paths of travelling of global MCSs. We recommend that future research may complement these insights by taking factors at the organizational or individual level into consideration which may have an impact

as well. We also acknowledge that the predictability of future developments as a major factor influencing the reception of global budget control structures at the local level is likely to be of minor importance in the context of travelling of, for instance, cost accounting or reporting structures. Therefore, future investigations may complement our study in multiple ways, both with regard to further countries as well as management control approaches. In this context, we consider Giddens' (1990) social theory on modernity a helpful device in making sense of the travelling of MCSs within MNCs and therefore recommend its consideration in future studies.

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