

**Japanese culture and budgeting:  
a review of the literature and a limited pilot study  
to illustrate the research agenda**

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## **Abstract**

**Purpose** - This paper discusses the impact that Japanese culture has on the budgeting process using insights gained from the literature and from a single company small-sample pilot study. It provides a research agenda which links specific aspects of Japanese culture to predictions about Japanese groups' budgetary, performance evaluation and variance investigation practices.

**Design/methodology/approach** – A detailed literature review of the relevant literature in accounting, education and sociology, which considers how Japanese culture systematically differs from Western culture, and a small-sample pilot study.

**Findings** - We find that the Singaporean subsidiary of the Japanese MNC we studied uses common Japanese budgeting practices, as previously documented by Ueno and Sekaran (1992). Line managers are rewarded based on overall actual companywide profit, consistent with the Japanese collectivist group-orientation which is itself a product of Confucianism. Although variances are used to rectify operational problems on a timely basis, line managers are not rewarded for outperforming the budget - the budget is a stick, but there is no offsetting carrot. An interviewed line manager (Chinese Singaporean, Purchasing) expressed mixed feelings about the current reward system and a preference for rewards based on outperforming his own budgetary target. This observation is consistent with some research in the educational literature suggesting that Chinese tend to be less collectivist than Japanese.

**Originality/value** – Literature review provides a synthesis of a diverse variety of sources. The literature review and pilot study findings add to the accounting literature by studying in more detail than prior studies exactly how and why Japanese culture characteristics will and should affect budgetary practice. The paper should be of special value and interest to higher-degree and early-career researchers.

**Keywords** Japanese budgetary practices, Japanese culture, research agenda budgeting.

**Paper type** Literature review.

The Japanese collectivist group orientation is well known (e.g. see Nippon Steel Human Resources Development, 1988; Reischauer, 1992, chap. 13; Sugiura and Gillespie, 1993) and its impact on Japanese business practices in the 1950s to the 1990s has been studied extensively. Although Bailes and Assada (1991) and Ueno and Sekaran (1992) document some aspects of Japanese management accounting and budgeting practice (and compare with American companies), there has been less study of the actual impact of Japanese culture on the budgeting process. Furthermore, there is an absence of research regarding how senior management of Japanese parent companies use policies and processes to guide overseas subsidiaries in such a way that Japanese cultural values are maintained and reinforced. This paper is primarily a literature review that aims to set the research agenda. It does not aim to offer empirical evidence to support the research question due to the limited nature of our pilot case study that includes only two interviews. Nevertheless, the pilot study offers an approach for other researchers to address the issue of the impact of Japanese culture on budgeting processes.

## **Research question**

The research question posed in this paper is: How are Japanese cultural values, especially the collectivist group-orientation, maintained and reinforced within the overseas subsidiaries of Japanese MNCs. In order to give the paper clear focus, specific attention is paid to the budgetary process and to related areas such as cost allocation and performance evaluation. We provide a detailed analysis of relevant literature in accounting, education and sociology in order to gain insight into the paper's research question. We then present a research agenda for accounting research into how Japanese cultural values should and will systematically impact upon budgetary practices. Key predictions are presented in Table 1 of the paper. A single case pilot study is also presented, which involves interviews with two managers who are integral to the budgetary process at the Singaporean subsidiary company of our Japanese MNC.

## **Literature review**

According to Karl Marx (1994a) and Marx and Engels (1994a, 1994b), the economic base or mode of production of a society (e.g. slave society, feudal, capitalist, socialist, communist) has primacy over the cultural, political, legal and religious superstructure. However, the French philosopher Louis Althusser (1918-1990) argued that this primacy only exists "in the last instance" (2008, p. 9) which allows for culture to have a significant influence upon not only the other parts of the superstructure but upon the economic base as well. For Althusser (2008), the superstructure has "relative autonomy" (p. 9) and there is "reciprocal action" (p. 9). We rely upon the Althusserian theory of "relative autonomy" and "reciprocal action" to put forward the case that, in the specific context of Japanese corporate groups, culture and the maintenance of cultural hegemony (Alawattage and Wickramasinghe, 2006; Gramsci, 1971) at overseas subsidiaries plays an extremely important role in determining the exact natures of group hierarchies, processes, and expected behaviors.

Covaleski *et al.* (2003) provide an extremely detailed discussion and interpretation of research in budgeting and classify research into three main streams: economics-

based, psychology-based and organizational theory (sociology)-based. Our review and pilot study is within the psychology and sociology traditions. The economics-based research relies predominantly on agency theory. However, agency theory works best in common law (rather than code law) and equity (rather than debt)-dominated economies such as the USA and UK where information asymmetry is resolved primarily through arms-length public disclosures (Ball *et al.*, 2000, 2003; Kung *et al.*, 2008, forthcoming). By contrast in Japan information asymmetry tends to be resolved primarily through informal channels of communication. Hofstede regards culture as “software of the mind”. It is unwise to draw too sharp a dividing line between psychology and sociology since individual thought patterns and behaviors are influenced strongly by societal norms and vice-versa. For example, Libby (1999, p. 129) states that “externally-oriented individuals believe that events are controlled by fate, luck or powerful others”. However, clearly the extent to which individuals *on average* believe strongly in luck or fate varies significantly from culture to culture and this inevitably affects the beliefs and actions of individuals. It is important to model the relation between the individual and society in dynamic and dialectical terms where each one is presumed to impact upon the other. Van der Stede (2000) notes that organizations need accounting-based controls due to size but need fluid arrangements for strategic maneuvering. He notes that “there is little insight into how organizations deal with such tensions” (p. 620). We aim in this paper to shed light on how Japanese groups may strike an appropriate culture-infused balance (that may not be appropriate or even possible for non-Japanese companies to strive for due to the unique Japanese cultural setting that determines it). There has been much literature that has focused on the concept of “budgetary fairness” (e.g. Libby, 1999; Magner *et al.*, 1995, 2006; Staley and Magner, 2008). However, the concept of fairness and the very act of perception itself most likely vary significantly from culture to culture. This paper will illustrate how Japanese companies *operationalize* fairness in such a way that Japanese cultural values are maintained and reinforced at overseas subsidiaries. The Japanese operationalization of the fairness concept cannot be separated from Japan’s culture and postwar history since it takes for granted such unique Japanese ideals as the lifetime employment system, continuous improvement/quality focus, group-orientation, responsibility for non-controllable items, and the predominance of *nemawashi* (informal consultation between insiders).

Magner *et al.* (2006, p. 416) argue that trust in supervisor is an important intervening variable between managers’ perceptions of budgetary procedures fairness and certain reactions. These authors state that “more detail is needed regarding the specific psychological processes by which budgetary procedures fairness works”. Trust in Japanese supervisors (at least for Japanese subordinates) is probably high because trust is not only in the supervisor *as a person* but also in the fairness of the whole Japanese corporate system including the lifetime employment principle. Group-orientation builds trust since lone-rangers who disrespect group norms are unlikely to rise to senior levels in Japanese organizations. In effect the worker places trusts *in her/his own culture* (including that culture’s own “disciplinary” methods) to deliver a particular cultural interpretation of fairness as well as material benefits and job security.

Quattrone and Hopper (2005) undertook a case study of Enterprise Resource Planning (ERP) software adoption at one Japanese and one American MNC. They find that the American MNC used ERP to facilitate and open channels of

communication at the group. Under the new system, non-accountants could input data into the system and utilize data to analyze their own performance against other parts of the business, unbeknown to the division whose data was being used for the comparisons. In Quattrone and Hopper's words, under the new system, "everyone became an accountant". For a short interval in time and space, power was focused in the hands of the person extracting and utilizing the system-produced data.

By contrast, at the Japanese MNC, the ERP system was merely used to maintain and reinforce existing hierarchies, processes and locus of control. Its role was expressly limited by senior management guidelines and important components of the information system were not integrated with the ERP project. The study produces evidence which suggests that senior management of corporate Japanese groups are extremely concerned, compared to their American counterparts, about maintaining hierarchy, processes and the locus of control at overseas subsidiaries. However, Quattrone and Hopper do not specifically link their findings to Japanese culture. It may be that senior managers are concerned with maintaining and reinforcing key Japanese cultural values, and use hierarchies, processes and the locus of control to achieve this. More research is needed to fully understand this phenomenon and validate the case study findings of Quattrone and Hopper.

Welch *et al.* (2007) report on how Toyota Corporation is becoming very concerned that, with its pioneering generation of Japanese executives nearing retirement, the large influx of newcomers including many non-Japanese at overseas subsidiaries will fail to appreciate and be able to reproduce the Toyota culture. President of Toyota Motor North America Shigeru Hayakawa states that "[w]e are making every effort not to lose our DNA". Workers are inculcated and trained in company values and traditions and retiring workers are often re-hired to teach and mentor newcomers. In 2006 Toyota rehired 650 of its 1200 skilled workers eligible for retirement in Japan. Randy Pflughaupt, who has worked with Toyota in the USA since 1982 and was in 2007 promoted to USA marketing head, was recently sent to a week of training in the Toyota way at the Toyota Institute in rural Japan. No officer, no matter how senior or experienced, is exempt from company training courses. One important lesson is Toyota's "five whys" – a tenet that requires engineers to continually ask why a problem is occurring until no new ideas are forthcoming. The Toyota Technical Training Institute just outside Bangalore in India, a \$5.6 million school opened in August 2007, aims to teach Indian recruits in English and history as well as immersing them in the Toyota culture. Two years of classes are needed before an Indian worker is permitted to join the factory assembly line and basic personal discipline and personal grooming are a part of the training. Welch *et al.* (2007, p. 51) report the case of student Harish Hanumantharayappa, age 17, who returned to his village for Hindu New Year clad in a Toyota uniform and a Toyota cap and being the envy of all his friends. Imai (1986) claims that Japanese manufacturing success in the 1950s through to the 1980s did not depend upon the Japanese cultural base as necessary ingredient and could easily be "transplanted" to the West. However, Imai's (1986) viewpoint is inconsistent with the huge expense and effort Toyota is currently taking to train even senior non-Japanese executives in the Toyota culture which is itself a unique product of the Japanese culture and Japan's twentieth century history[1].

Based on Quattrone and Hopper (2006) and Welch *et al.* (2007), we predict that Japanese budgetary practices will tend to be relatively uniform within a group and over time (see Table 1). We also predict that policies and processes enforced upon overseas subsidiaries, including those that relate to cost allocation and performance evaluation, will reflect and reinforce the Japanese collectivist group-orientation, which is itself a product of the Confucian worldview.

**Table 1**  
Predictions about Budgetary Practice at Japanese corporate groups based on the accounting, education and sociology literatures

<b>Japanese Cultural Value</b>	<b>Principal Predictions</b>
High Power Distance (Hofstede, 2001)	(a) Head Office provides Sales Revenue targets for overseas subsidiaries (b) Overseas subsidiaries expected to follow policies and processes of parent, i.e. Policies and processes used to maintain and reinforce Japanese culture
Masculinity (Rigid Patriarchal) (Hofstede, 2001; Bell and Piper, 2005)	(a) Sales Revenue rather than ROI a more important goal for Japanese line managers
Collectivism over Individualism/ Nail that stands out gets banged down/Only achievement society values is achievement within the context of the group (Reischauer, 1992; Hofstede, 2001)	(a) Reward for line managers based on actual overall company profit not individual manager's favorable deviation from own budget (b) Public acknowledgement of best performing divisions relative to budget to encourage loyalty
Lifetime Employment (Reischauer, 1992)	(a) Lifetime Employment encourages co-operation, consensus and mentoring of junior staff (b) Favorable performance of individual managers not rewarded financially to discourage "lone-ranger high achievers" who are a threat to harmony
Achievement through Effort/ Quality Focus (Imai, 1986; Hess and Azuma, 1991; Chen and Stevenson, 1995; Otsuka and Smith, 2005)	(a) Immediate remedial action with respect to Unfavorable Variances (b) Results of Variance Investigation incorporated promptly into next period's budget (c) Use of Rolling Budgets (d) Best and worst performing divisions relative to budget publicly named so as to encourage continued/renewed commitment
East-Asian belief in luck and fate as determinants of destiny (Otsuka and Smith, 2005)	(a) Line managers held accountable for non-controllable items affecting budgetary attainment

Hofstede (2001), in his revised edition of *Culture's Consequences*, outlines five cultural dimensions, which are Power Distance, Individualism, Uncertainty

Avoidance, Masculinity and Confucian Dynamism. According to these dimensions, Japan's national culture rates highly in the areas of Power Distance, Uncertainty Avoidance, Masculinity and Confucian Dynamism (long-term orientation), and lowly in the area of Individualism. Japan is often regarded as an extreme case, both in terms of the homogeneity of its population in terms of race and ethnicity and its scores on each of the Hofstedeian cultural dimensions (especially Masculinity where it is ranked number 1 out of 53 countries; Hofstede, 2001, p. 286).

Leading sociology researchers Bell and Piper (2005, p. 218) have recently classified Japan, Korea and Pakistan as "*rigidly patriarchal*" cultures. They note that these countries do not encourage or allow for either the sending overseas of foreign domestic workers (unlike the Philippines, Indonesia and Sri Lanka), or for the receiving of such workers (unlike Taiwan, Hong Kong and Singapore). By contrast, those Asian countries which encourage/allow either the sending out or receiving of foreign domestic workers (FDWs) are classified as "*patriarchal*" (but not rigidly so) and as "*egalitarian*" (Bell and Piper, 2005, p. 218). Key figures in the Philippines Government have publicly extended the label "silent heroes" to these workers (Bell and Piper, 2005). Consistent with Bell and Piper (2005), we regard the concept of individual free agents (e.g. FDWs) selling their skills and willingness to work on the world market as a characteristic of a less collectivist and less masculine orientation in both the sending and receiving countries. By contrast, Japan is neither a sending nor a receiving country and is classified as rigidly patriarchal.

In Japan, the group, rather than the individual, is regarded as the most important stabilizing and creative force in society (Reischauer, 1992, chap. 13). The Japanese business world has been characterized by the enduring principle of "*lifetime employment*" (Allinson, 1997; Reischauer, 1992, chap. 33). A detailed system of working life has been adopted in most major Japanese corporate groups since World War Two. Under this system, promising graduates are selected from prestigious universities (Allinson, 1997, p. 120). They attach their identity to a large degree to their age cohort, which tends to move progressively upwards in the ranks at uniform speed (Allinson, 1997, p. 117; Reischauer, 1992, p. 320). When the age cohort reaches near retirement age, some are selected as chief executive officers (CEO), others as CEOs of related companies and the remainder retires early, typically at 55 years of age (Reischauer, 1992, p. 320-1). Allinson (1997, p. 111) remarks that the new lifetime employment system that emerged after World War Two created a new "social type" that had first arrived on the scene during the pre-war period but only in small numbers. The salaried worker or *sararii-man* "became the symbol of a new social category to which many now aspired".

Workers in Japan define their identity, not as possessors of a certain skill set (such as accountant, welder), but in terms of their belonging to the company group (Reischauer, 1992, p. 133). A male worker would see himself, for example, as a "Mitsubishi man", "Mitsui Trading man" or "Finance Ministry man" (Reischauer, 1992, p. 133, 323). Another vital ingredient of the Japanese system is that, even when demand for the company's product falls, workers are rarely retrenched. Instead, they are re-assigned to other roles within the company (Allinson, 1997, p. 183; Reischauer, 1992, p. 325). This tends to reinforce both worker loyalty and identification with the company. As Allinson (1997, p. 137) explains about the 1974-1989 period:

Unemployment levels rose to [only] about the 3 percent level, never reaching the double-digit level that became endemic in some European countries. Japanese employers deserve substantial credit for this outcome. They operated under a social contract that obligated them to find jobs for as many displaced workers as they could. Lingering memories of widespread unemployment in the 1940s, along with a commitment to full-employment policies, determined their responses.

During the economically troubled times of the 1989-1995 period, a period dominated in Japan by the theme of restructuring (*resutora*), Allinson (1997, p. 183) notes that lifetime employment remained a “custom” that employers went at great lengths to honor. Lifetime employment proved remarkably durable even during the hard times of the 1990s suggesting that it has become a hardcore irremovable feature of Japanese society (although clearly some firms in the 1990s did lay off regular full-time staff). In Allinson’s (1997, p. 183) words:

Japanese employers strove, to the greatest extent possible, to protect the custom of lifetime employment, even when they could not maintain a total commitment to full employment. When implementing production cutbacks, firms usually tried to protect their core workers at all costs through a series of carefully implemented steps. To relieve pressure on current workers, firms did not hire new entrants. They eliminated overtime payments. They laid off temporary and part-time workers. They also provided incentives to induce older workers to retire. If one firm could not find work for its employees, it would send them to affiliated firms. ... Only as a last resort, it seems, did firms finally lay off regular, full-time, male employees, the principal beneficiaries of the lifetime employment system.

One negative aspect of the collectivist orientation in the work-place includes the subtle pressures exerted on individuals to conform. For example, workers are expected to join colleagues for after-work drinks on a regular basis (the demarcation between “company time” and “personal time” is much less rigid, compared to the West) (Allinson, 1997, p. 193). This is often the case even when the worker’s finances are constrained and an early start is required the next day.

In an attempt to operationalize key elements of cultural difference in the education literature, Otsuka and Smith (2005) argue that Japanese value most highly “*achievement through effort*” whereas Westerners, and in particular Americans, value most highly “*achievement through ability*”. Studies in the education literature consistently find that Westerners perceive individual ability to be primarily fixed (Nicholls, 1979; Dweck and Bempechat, 1983; Weiner, 1986; Stipek and MacIver, 1989; Salili, 1995; Otsuka and Smith, 2005, p. 98, 102). By contrast, Japanese (and East-Asians generally) perceive effort as an important moderating factor which interacts jointly with ability to create achievements. “Accordingly, the East-Asian conceptions of ability are closely related to an incremental theory of ability, which views ability as something they produce and *something with great potential to be increased through their efforts*” (Otsuka and Smith, 2005, p. 101, emphasis added). According to the East-Asian mindset, ability is viewed as being malleable, to a certain extent, by and through effort (Nicholls, 1979; Dweck and Bempechat, 1983; Hau and Salili, 1989; Stipek and MacIver, 1989; Otsuka and Smith, 2005, p. 98, 102, 104). This is consistent with group-orientation because effort is usually a *shared activity*, which involves co-operation, sharing, team work and joint (team) learning (Doi, 1973; Covington and Omelich, 1979; Stewart, 1985; Reischauer, 1992; Otsuka and Smith, 2005, p. 99-100). By contrast, ability largely revolves around the individual. An

important empirical study in the education literature, which supports the achievement through effort/ability dichotomy, is Hess and Azuma (1991, cited in Otsuka and Smith, 2005, p. 102). This study shows that young Japanese children take longer to complete assigned drawing tasks (average 80.5 seconds) than their American counterparts (average 55.3 seconds). However, in the end, the Japanese children achieve at a higher level (9.9 average errors for the Japanese children, compared to 11.4 average errors for the American children). The study clearly demonstrates the achievement through effort/ quality focus that family and school socialization (Althusser, 2008; Robertson, 1977, p. 350-3; Waters and Crook, 1993, p. 314-60) has inculcated in Japanese children at an early age[2]. We, therefore, predict that in Japanese corporate groups (a) there will be immediate remedial action with respect to unfavorable variances; (b) results of variance investigation will be incorporated promptly into next period's budget; (c) rolling budgets will be frequently used; and (d) best and worst performing divisions relative to budget will be publicly named so as to encourage continued/renewed commitment (see Table 1).

Anthony and Govindarajan (2003, p. 420) have classified the budgetary process as either “*top-down*” or “*bottom-up*”, and this dichotomy has become widespread. It portrays the budgeting act as being one directional. In Japanese groups, elements of both are observed, through a dynamic system which defies easy categorization. In Japan, documents detailing proposed plans of action are frequently circulated from senior managers, down the chain of command, to gain informal assent and support from middle and lower managers. The process of informal consultation and consensus building outside formal meetings is termed “*nemawashi*” (Reischauer, 1992, p. 321), and the more specific process of document circulation is termed “*ringisei*” (Reischauer, 1992, p. 321). Under *ringisei*, plans are reviewed by middle and lower managers, who might affix their seal to the plans, and then they are re-directed back to the more senior managers. Decision making is consensual (or at least there is consultation) and decisions are reached through informal channels of communication before they are formally ratified at a higher level. This wide circulation of plans and extensive consultation processes avoids loss of face, and maintains harmony (at least on the surface). The actual process of consultation and decision making (*ringisei* and *nemawashi*) that occurs in Japanese groups appears more complex and dynamic than allowed for by Anthony and Govindarajan's dichotomy.

It can be argued that the Japanese approach in the business world, being based on the core principle of lifetime employment, actually *encourages* full and frank discussions and consensual decision making between superiors and subordinates (Reischauer, 1992, p. 321). The reason is that talented young executives are rarely promoted above a less-talented manager senior to them in years, and so the senior manager feels no threat from the talented junior (Reischauer, 1992, p. 321). The system encourages and fosters a “*benevolent paternalism*” where senior managers, feeling that their subordinates are no threat to their position, willingly adopt the roles of mentor and counselor (Reischauer, 1992, p. 324). If this perception is accurate, there may be an inverse association between Hofstede's dimensions of Power Distance and Individualism in Japan, with the national culture being characterized as Low Individualism (High Collectivism)/ High Power Distance.

One famous Japanese saying is “the nail that stands out gets banged down” (Reischauer, 1992, p. 136). Compared to the US, the Japanese culture values much less highly the “*lone ranger high achiever*” who does not adhere to the social norms of the group (Reischauer, 1992, p. 136, 138, 321, 337). In fact, achievement is largely devoid of meaning in Japanese culture outside the context of the group (Salili, 1996; Otsuka and Smith, 2005, p. 100). A person’s identification with a group, and his/her sharing of group values and identity, injects meaning into Japanese achievements. It can even be argued that the Japanese society *only* values and recognizes group achievement (Hsu, 1985; Feather and McKee, 1993; Otsuka and Smith, 2005, p. 101). Because of this worldview, the exact contribution of each individual to group achievement is rarely subjected to detailed scrutiny. When applied to the business world, we expect that senior management at Japanese MNCs will maintain and reinforce group-orientation (a Japanese cultural value) through the means of (implicit and explicit) hierarchies, policies and processes. The Confucian ideal of *filial piety* is likely to be an important motivating force behind senior management thinking and action, and we expect that its implications will be visible in the policies and processes implemented. Because of the collectivism dynamic present in Japanese society, we, therefore, predict that Japanese corporate groups will (a) reward line managers based on actual overall company profit rather than an individual manager’s favorable deviation from her/his own budget; and (b) publicly acknowledge best performing divisions relative to budget to encourage loyalty (see Table 1). Because of the Japanese lifetime employment principle, we, therefore, predict that Japanese corporate groups (a) will encourage co-operation, consensus and mentoring of junior staff; and (b) not reward financially favorable performers relative to budget so as to discourage lone-ranger high achievers who are a threat to harmony.

Chinese society, like Japan, has Confucian roots (Hofstede and Bond, 1988; Reischauer, 1992; Biggs and Watkins, 1996; Biggs, 2001; Hofstede, 2001), and the ethics of Confucianism remain a silent and invisible force that permeates every aspect of national life (Tu, 1990). We expect Chinese companies to also be characterized by the Confucian ethics of harmony, filial piety, respect for elders, thrift and long-term orientation (Hsu, 1981; Tu, 1985, 1990; Reischauer, 1992; Hofstede, 2001). Otsuka and Smith (2005) regard ethnic Chinese as being similar in culture to Japanese, due to the shared Confucian roots. However, they are not identical. The do-it-yourself ethic is likely to be marginally higher for Chinese than for Japanese and the group-orientation slightly reduced. Supporting this is research in the education literature (Chen and Stevenson, 1995, cited in Otsuka and Smith, 2005, p. 101) where European Americans, Beijing Chinese, Taipei Chinese and Sendai Japanese students were asked about their opinion of the relative roles played by effort and ability in educational achievement. Twenty-three percent of European Americans stated that effort played the greater role in achievement, rather than ability, as compared to 57%, 59% and 72% of the Chinese, Taiwanese and Japanese students, respectively. The difference in scores of the Japanese and both Chinese groups are interesting, and they suggest that ethnic Chinese are less group-oriented and more individualistic than Japanese. This suggests that the Japanese can be viewed as a culturally extreme case (even within Asia), consistent with Bell and Piper (2005). When applied to the business world and budgeting, we expect group-orientation to be reinforced, but *to a lesser degree*, in the policies of Chinese companies compared to their Japanese counterparts.

Lin and Yu (2002) perform an exploratory study where they describe the process whereby one state-owned enterprise, SOE (the Han Dan Iron and Steel Company) adopted Western cost accounting techniques en masse over a ten-year period. They analyze the case study primarily in terms of Rogers' *Diffusion of Innovations* theory (1995), which, although having been used frequently in the information systems literature (e.g. Gregor and Menzies, 2000; Rodrigues and James, 2005), is less familiar to accounting researchers. This theory presumes that new innovations are adopted (diffused) when a company faces unfavorable business conditions and is forced to adapt to survive. This threat to survival means that more conservative organizations will implement innovations used successfully by a minority of less risk-averse, market-leading early adopters. Without the threat to survival, it is unlikely that this diffusion would occur. Lin and Yu argue that Han Dan was in a position where its survival was threatened, and it was forced to adopt Western cost-accounting techniques to improve its profitability and efficiency. One Western-educated manager at Han Dan championed the cause of Western cost accounting techniques internally within Han Dan, and over time this led to its adoption. Lin and Yu also claim that the adoption of Western cost accounting techniques, and in particular primary bonuses connected to attainment of budgetary goals, allowed Han Dan to progressively return to profitability.

At Han Dan, primary bonuses (40-50% of income) are calculated based solely on deviations from responsibility centre target costs, a master budget-based number. Under the *cost-veto* mechanism in place, no exceptions or exemptions for rises in uncontrollable costs may be taken into account in the calculation of primary bonuses. Bonuses based upon deviation from standard extend as far down as the individual worker level. Although flexible budgeting is practiced at Han Dan (three possible cost outcomes are specified in advance), primary bonuses are calculated based only on achievement of the master budget target. Bonuses are also based upon performances according to a diverse list of performance indicators, some of which are not products of the traditional accounting process. These performance indicators include production output, product mix, quality, usage/ consumption rates, and labor safety and protection (Lin and Yu, 2002, p. 458). However, strong performance in relation to these other performance indicators is always secondary to attaining responsibility centre target costs in the calculation of bonuses. If the other performance targets are met, but responsibility centre target cost is not achieved by the manager/worker, then the entire bonus and all other benefits are lost (Lin and Yu, 2002, p. 457).

The Western cost-accounting system adopted at Han Dan strongly reflects the notion of individual accountability for performance. As such, it is consistent with Otsuka and Smith's (2005) conclusion that Chinese have more of a do-it-yourself ethic than Japanese, and a somewhat lower group-orientation. The Han Dan case may support Bell and Piper's (2005) classification of Japan but not predominantly Chinese societies such as Hong Kong, Taiwan and Singapore as *rigidly patriarchal*. This second conclusion requires us to assume that High Power Distance (patriarchy) is consistent with group-orientation. This may well be true in relation to Japan because High Power Distance, within the unique context of the Japanese lifetime employment system, may encourage more, rather than less, interaction and consensual decision-making.

The research agenda encouraged by the present study will explore understandings of the ways Japanese cultural values are *maintained* and *reinforced* by the senior management of Japanese MNCs at their overseas subsidiaries. The findings can be compared with Lin and Yu's Han Dan case, bearing in mind the cultural differences that Chen and Stevenson (1995), Otsuka and Smith (2005), and Bell and Piper (2005) claim exist between Japan and ethnic Chinese societies. Results may also confirm Wickramasinghe and Hopper's (2005) important finding, *in a different cultural context*, that ethnic and cultural differences are a silent but pervasive source of many unresolved tensions and failings within organizations that operate in a multi-cultural environment.

### **Pilot study research method**

We begin tentative first steps to pursue the research agenda suggested by this paper's literature review and Table 1. We use a single case study approach so as to more fully explore the richness and detail of the company-specific setting. Single and multiple case studies have been suggested by Eisenhardt (1989) and Yin (2003) as being suitable for theory-building (grounded theory) research. This pilot study adds to the recent management accounting literature, such as Armstrong (1983, 1989, 2007), Lightbody (2000), Lin and Yu (2002), Norris (2002), Saravanamuthu and Tinker (2003), Wickramasinghe and Hopper (2005), Major and Hopper (2005), Irvine (2005), Quattrone and Hopper (2005), Alawattage and Wickramasinghe (2006) and Efferin and Hopper (2007) which use single and multiple case studies. However, results of our pilot study cannot be regarded as conclusive or generalizable due to the small number of interviews (only two) which we were permitted to conduct with our pilot company's managers. At best, our findings here only add insight to the present study's literature review and Table 1. We encourage other researchers to undertake larger sample studies using our research agenda and hypotheses.

We chose as the pilot case study company the Singaporean subsidiary of a well-known Japanese MNC operating in the manufacturing sector. This company has a global brand name and produces a range of products, primarily electrical domestic household appliances. The Japanese group was one of those that in the 1980s "won notoriety [outside Japan] as symbols of Japanese corporate wealth and power" (Allinson, 1997, p. 179). It was formed in 1918 and incorporated in 1935 thus making the firm part of the generation of firms, a generation that included Hitachi, Nissan, Toshiba and Toyota, formed in the 1920 to 1939 period but which became economic giants only after World War Two (Allinson, 1997, p. 28). These firms can be contrasted with the earlier "*zaibatsu*", the four most important of which were in 1932 Mitsui (origins in the seventeenth century), Mitsubishi (formed in 1870 by the Iwasaki family), Sumitomo and Yasuda (both having their origins like Mitsui in the Tokugawa era) (Allinson, 1997, p. 25).

Our company was chosen because the first-mentioned author was working there (as accountant) and had some experience of the actual budgeting process and policies. The sources of evidence were: (a) observation; (b) personal knowledge gained through the first-mentioned author's *lived experience* working at the company as accountant over a number of years; (c) confidential budget data for the 2002 year; (d) and interviews with two managers who were integral to the budgetary process at the company. Before we denigrate the validity of knowledge gained through prior working experience, we should remember that Michel Foucault, in his ground-

breaking first book on the nature of psychiatry *Madness and Civilization* (1988), used as his primary source of information knowledge gained from his time working as an intern at a French hospital. A company accountant will have a large number of informal “interviews” with managers and workers whilst performing regular duties; will sit in on a variety of meetings, presentations and speeches; and will become familiar with company processes and culture through immersion. All of this immersion in company processes and culture is generally not available, or at least not to the same extent, for a university academic doing short stints of field-work where company workers may not always act “naturally” but may be “posing for the camera”.

We were not permitted access to interview more managers, which is a clear limitation of this pilot study. The two individuals interviewed were the Finance Director (FD) and the Purchasing Manager (PM). Both individuals are extremely important contributors to the budgeting process, and their significance adds to the quality of the data collected mitigating the low quantity of data collected. The FD is responsible for coordinating the entire budgeting process (there is no Budget Committee) and recommends, jointly with the Managing Director (MD) of the company, hereinafter referred to as “Proliferation”, the final budget for approval to the Head Office (HQ) located in Japan. The PM’s role is vital in a company which aims to minimize the direct labor (DL) component of its production costs, and also allocates all overhead to products based on direct materials (DM) dollars.

Interviews demand real interaction between the researcher and the respondent. To be able to conduct the interview efficiently, the researcher needs to understand (and, to a degree, empathize with) the respondent’s background, values and expectations. Interviews are often considered to be a high quality data collection method. The first-mentioned author (who conducted both interviews) is a Chinese Singaporean, based in Singapore, and so shares the same cultural background as the PM (also Chinese Singaporean). We take into account Baskerville (2003) and Baskerville-Morley’s (2005) critique of Hofstede’s (2001) work. Baskerville-Morley argues that Hofstede wrongly equates nation with culture. This may not be a problem in a country such as Japan, which is ethnically and culturally homogeneous. By contrast, in countries which are home to several ethnic groups, such as Singapore, Malaysia, Kenya (see Sian, 2006, 2007) and Fiji (see Otsuka, 2005; Irvine and Deo, 2006), it may be necessary to consider separately the ethnic group of the respondent. So, for example, in Singapore, we might assume homogeneity only within the three major ethnic groups resident in the country – Chinese Singaporeans, Malay Singaporeans, and Indian Singaporeans – rather than across the three groupings. The first-mentioned author and the PM, therefore, can be said to belong to the same cultural/ethnic group, that of Chinese Singaporeans.

Another limitation of the study is that the first-mentioned author interviewed her superior, the FD. By contrast, she was not in daily contact with the PM in performing regular work tasks. Although the closeness of the interviewer to the interviewee can be viewed as a limitation of the study, the other co-authors were not involved in the interview process, and it is hoped that they were able to add further objectivity to the analysis process.

### **The budgeting process: walk-through tour**

This section reports the findings of the observation and past experiential evidence obtained for the pilot case study.

As a subsidiary of the Japanese Masaki Group (name changed), Proliferation (Singapore), hereafter referred to as Proliferation (name changed), must follow HQ guidelines in preparing the budget. Each January HQ disseminates the corporate strategic plan as a guideline for the preparation of the budget for the forthcoming year.

There is no Budget Committee at Proliferation. The Finance Department members are responsible for the preparation, distribution, and processing of forms used in gathering budget data, and they handle most of the work of actually formulating the budget schedules and reports. Each Division Manager (DM) makes all budget decisions, and the final budget requires approval by the FD and MD of Proliferation.

Proliferation's budget year coincides with its fiscal year ending in March. Synchronizing the budget period with the organization's fiscal period facilitates comparison of actual operating results with the budgeted result. The annual budget is usually prepared in January, with a revised budget prepared in August for the 2<sup>nd</sup> half yearly time period. A rolling four months forecast is prepared monthly based on newly available information. "*Continuous budgets*" or "*rolling budgets*" are a very common form of master budget that simply add a month in the future, as the month just concluded is dropped. Use of rolling budgets is consistent with our Table 1 prediction for Japanese corporate groups due to Japan society's achievement through effort/quality focus. The use of the rolling-budget is also consistent with the findings of Ekholm and Wallin (2000), who document that many firms are replacing traditional budgets with rolling budgets. In addition, Hansen and Van der Stede (2004) find that budget performance in relation to the short-term (operation planning) function is positively associated with the use of rolling budgets.

A good way to explain the budgeting process of Proliferation is to take a *walk-through tour* of the development of the annual budget. We focus on preparation of the master budget because it provides a comprehensive picture of the entire budgeting process at Proliferation (base year: 2002).

At Proliferation, the standard cost system for manufacturing costs has two direct cost categories (DM and Direct Manufacturing Labor), and one indirect cost pool (Manufacturing Overhead). Manufacturing Overhead (both variable and fixed) is allocated to products using DM Dollars as the allocation base. We suggest that this allocation base is chosen as a proxy for *number of parts* (production volume and complexity) in a group which is trying to minimize direct labor usage. It stands in contrast to most management accounting texts where Direct Labor Hours is often presented as the typical or traditional allocation base. For example, Garrison *et al.* (2006, p. 93) state: "The most widely used allocation bases are direct labor-hours and direct labor cost, with machine-hours and even units of product (where a company has only a single product) also used to some extent". Hiromoto (1988) points out that Japanese companies frequently do not choose an allocation base because it reflects the

flow of costs. Instead, an allocation base is chosen because it forces managers to discipline their spending in terms of units of the allocation base.

Using the terminology of Anthony and Govindarajan (2003, p. 420), the preparation of the budget at Proliferation consists of some *top-down* (sales) and some *bottom-up* (expenses, head-count and over-time) aspects. Sales forecasts drive production. The *sales budget* is the basis for all the other operating budgets and most of the financial budgets.

The normal practice at most manufacturing companies is for the Sales and Marketing Department to create the sales forecast. However, at Proliferation, HQ supplies the sales forecast to Proliferation. This is consistent with a hierarchical management style, reflective of High Power Distance, Low Individualism and High Uncertainty Avoidance in Japan and Japanese MNCs (see Table 1).

The extant empirical evidence shows that Japanese companies consistently rank *sales revenue* as the most important budget goal for divisional managers (Radebaugh *et al.*, 2006, p. 384-5). For example, Bailes and Assada (1991, p. 137, cited in Radebaugh *et al.*, 2006, p. 385) find that 86.3 percent of surveyed Japanese companies list sales volume as the most important goal for managers at divisional level, compared to 27.9 percent of surveyed US companies. By contrast, Return on Investment (ROI) is listed as the most important goal for managers at the divisional level by 68.4 percent of US companies, but by only 3.1 percent of their Japanese counterparts (Bailes and Assada, 1991, p. 137, cited in Radebaugh *et al.*, 2006, p. 385). Shields *et al.* (1991) and Demirag (1994) report similar findings.

Given this weight of empirical evidence, which indicates the heavy reliance that Japanese companies place on sales volume as a goal for divisional managers, it is not surprising that at Proliferation the HQ provides the sales forecast to the subsidiary. The Masaki Group process of providing the wholly-owned subsidiary with sales forecasts, rather than allow them to be developed internally, is consistent with Bailes and Assada's (1991, cited in Radebaugh *et al.*, 2006, p. 388) finding that American divisional managers are more likely than their Japanese counterparts to both participate in Budget Committee discussions, and influence Budget Committee outcomes. We conclude, consistent with Otsuka and Smith (2005), that sales revenue is an important target in the minds of senior Japanese managers because it is more closely aligned than ROI to the Japanese cultural value of *achievement through effort*[3].

During January of each year, the Finance Department at Proliferation receives the sales forecast from HQ. Based on the targeted inventory turnover days, approved by the General Manager (GM), the planner will compute a detailed schedule showing the production, sales and inventory (known as the PSI) for the months involved.

The standard procedure is that the Finance Department then disseminates the PSI to all the Department Managers as a guideline for the preparation of their departmental budgets. The production budget in turn is used to determine the budgets for manufacturing cost, including the DM budget, the direct labor (DL) budgets, and the manufacturing overhead budget. These budgets are then combined with the data from the sales budget and the selling and administrative expenses budget to determine the cash budget.

The proposed budgets go up through successive levels in the organization. Ultimately, Finance Department members put the pieces together and examine the total. The FD and MD of Proliferation jointly recommend final approval to HQ. This happens in January, just prior to the beginning of the budget year.

At Proliferation, there are two budget review periods: monthly and half yearly. Proliferation prepares a budget for the whole year, but only the first six months of this budget is formally approved by HQ. The budget for the second six months is revised and approved shortly before the period begins. Monthly reviews are an evaluation of actual versus budget, with related variances reported and queried. The Finance Department prepares a *Management Chart Report* (actual versus budget) which is tabled at the top management monthly meeting. The Management Chart Report compares the actual results with the Business Plan (master budget) and monthly forecast (rolling budget) in six key areas: operating, production, headcount, expenses, inventory and quality. At Proliferation, an arbitrary percentage rule applies to determine whether investigation into a variance should take place. At the Proliferation monthly management meeting the responsible Department Manager explains verbally to the GM the reasons why he/she believes that the unfavorable variance occurred. The same manager also submits a formal Variance (Explanation) Report to the MD. The Finance Department computes a scorecard of the best five and the worst five departments (relative to budget), and this is made public. Proliferation practices are consistent with our Table 1 predictions as follows (a) immediate remedial action taken with respect to unfavorable variances; (b) results of variance investigation incorporated promptly into next period's budget; and (c) best and worst performing divisions relative to budget publicly named so as to encourage both continued/renewed commitment and increased loyalty.

### **Results for interviews**

The interviews aimed to add insight in regards the fundamental research question posed in this paper, i.e. How do senior management of Japanese MNCs use hierarchies, processes and the locus of control (with specific reference to budgeting practice and performance evaluation) to maintain and reinforce Japanese cultural values, in particular the collectivist group-orientation, at overseas subsidiaries?

We discuss first the interview results involving the FD. The FD co-ordinates the budgetary process, as leader of the Proliferation Finance Department, bearing in mind that the company has no Budget Committee. The FD, in conjunction with the Proliferation MD, is responsible for recommending the final budget to HQ. The interview transcripts indicate that the FD can explain effectively and clearly the budgetary process. In response to the question as to whether the company prepared flexible budgets (budgets showing results at alternative output levels), the FD answered “no”. He stated his view that computing variances based on deviation from master budget is preferable due to “time constraints and the current system”. Garrison *et al.* (2006), as with most management accounting texts, imply that it is usual or typical to have line managers rewarded financially if they outperform their budget target. They state (2006, p. 383) that “[b]onuses based on meeting and exceeding budgets are often a key element of management compensation”. However, our interview findings indicate that this is not always the case. Our finding is consistent with our Table 1 prediction and with the prior empirical results of Bailes and Assada (1991, cited in Radebaugh *et al.*, 2006, p. 388) for Japanese companies. The FD sees

the budgetary process as a highly refined, complicated and inter-connected system, which (in his mind) achieves its intended purposes.

Lin and Yu (2002), who study cost accounting practices at the Chinese SEO Han Dan Iron and Steel Company, find that flexible budgets are prepared. Three possible cost outcomes are specified in advance. However, whilst the three cost outcomes are used by Han Dan to compute managers' top-up bonuses, the primary bonus (40-50% of income) is computed only based on deviation from responsibility centre target (benchmark) cost, which is a master budget based number. We conclude that the Han Dan and Proliferation systems are reasonably similar in terms of the secondary role that flexible budgeting plays. However, Proliferation places a stronger emphasis than Han Dan upon attainment of the master budget, at least in regard variance investigation. We conclude that emphasis on master budget over flexible budget is consistent with High Power Distance, Low Individuality and High Uncertainty Avoidance.

In the opinion of the FD, Proliferation should have a longer budgetary planning horizon, to tie in with corporate goals. The emphasis on long-run planning is consistent with High Japanese Confucian Dynamism (Hofstede and Bond, 1988; Hofstede, 2001). In terms of prior studies, Bailes and Assada (1991, cited in Radebaugh *et al.*, 2006, p. 389) report that Japanese companies, compared to their American counterparts, do not have a longer term planning horizon. However, contrary to this, Ueno and Sekaran (1992, cited in Radebaugh *et al.*, 2006, p. 389) document that Japanese companies measure and compare performance over relatively longer time intervals than do their American counterparts.

When asked whether the company prepares for contingencies (unexpected unfavorable events), the FD stated "no", but added that he builds "price risk" (slack?) into the budget. It seems that, whilst flexible budget is not used formally, the FD incorporates price risk by systematically padding the master budget. This padding, supported at a high level, is consistent with the use of informal channels of communication in Japan (private networks) and the need for consensus and uniformity in terms of finalized, formal decisions. This supports our Table 1 predictions and Bailes and Assada (1991), who find that American companies use more formal meetings in the budgetary process than their Japanese counterparts. Ueno and Sekaran (1992, cited in Radebaugh *et al.*, 2006, p. 389) argue that the proliferation (pun intended) of formal budgetary meetings in America can be viewed as "the natural outcropping of individualism". In other words, because of the importance of individualism, more formal meetings are needed in America to air and debate conflicting views, and to reach a compromise outcome. By contrast, in Japan, the process of *nemawashi* (informal consultation) predominates.

In response to the next question: should manager rewards be based upon attainment of budget, the FD answered "no", the reason being that "we will budget for the loss also." The FD supports the current system where line manager rewards are based on the overall actual profit of the company, rather than individual performance relative to budget. The negative answer to the question combined with the statement "we will budget for the loss also" implies a senior management belief that if the overall company makes a loss, no bonuses should be awarded, even if an individual performs strongly relative to budget. This set of beliefs clearly reflects Japanese

collectivism (group-orientation) and especially the Japanese saying quoted above that “the nail that stands out gets banged down” (Reischauer, 1992, p. 136). It reflects the Japanese tendency to inject meaning into achievement only within the context of the group (Salili, 1996; Otsuka and Smith, 2005, p. 100), and the low value that Japanese society places upon the lone-ranger high achiever so revered in the West (Reischauer, 1992, p. 136, 138, 321, 337). Assuming uniformity of policies across the group worldwide (which Quattrone and Hopper’s [2005] evidence would support), the FD’s responses suggest that Masaki Group senior managers use performance evaluation systems to *maintain* and *reinforce* Japanese cultural values at overseas subsidiaries.

Allinson (1997, p. 117) and Reischauer (1992, p. 332) note that the rewarding of twice-yearly bonuses to workers based on annual company profit is common in Japan. Anecdotal evidence suggests that an annual profit-linked bonus paid around Christmas or Chinese New Year is also common in Singapore. These gestures seem to be a product of the *benevolent paternalism*, that itself is an outgrowth of the *filial piety* value inherent in Confucianism. As Bell and Piper (2005, p. 217-8, 221) explain, the concept of family is vital to Confucianism, with a clear demarcation being made between insiders (members of the extended family) and outsiders. However, Bell and Piper also argue that the distinction between insiders and outsiders in Confucian societies, whilst being largely fixed at a point in time is relatively fluid over time, so that the FDWs who have served a household faithfully in (say) Hong Kong or Singapore for a number of years are often treated as family members. As a result, we can conclude that the family concept of Confucianism can operate within an East-Asian *parent* company, its subsidiaries and workers, with senior management (implicit and explicit) support. In this context, subsidiaries and workers, even in public-listed MNCs, are viewed as part of the extended family (insider) network.

We now discuss the results of the interview with the PM. We argue that the PM is an extremely important individual in the budgetary process at Proliferation due to the company’s desire to minimize Direct Labor Hours, and its choice of DM Dollars as the sole overhead allocation base. The PM’s ability to secure access to and partnership with low cost, reliable, quality material suppliers will be an extremely important long-term determinant of company profitability. The PM’s ability to attain his budget will be regarded as an extremely important performance indicator for the company as a whole.

The PM states that he routinely attempts to build slack into the budget, consistent with Kaplan and Atkinson’s (1989, p. 785) argument that line managers’ “self-interest may cause them to strategically manipulate their information and intentions”. In the Japanese context slack can be viewed as a face-saving device. Budgets incorporating slack (meaning that there has been acceptance of slack by the superior) may be the official public position. However, in Japanese society most important negotiations take place through informal channels (*nemawashi*). Thus within Japanese corporate groups slack cannot be associated mechanistically with dishonesty. If it is accepted by the superior then it can be said to measure to some extent the discrepancy between private and public worlds. Van der Stede (2000, p. 619) has written that slack should not be viewed as an always negative since it is “essential for innovation” and “is not exactly counterproductive for differentiators given their focus on product innovation with long-term and less certain payoffs”. Japanese companies tend to be highly

focused on innovation, continuous improvement and the long-term; therefore the viewing of slack in a positive manner by Japanese companies if it occurs (we do not want to draw conclusions from the results of our pilot study) is consistent with the theoretical propositions of Van der Stede (2000).

It appears that Proliferation does not routinely distinguish controllable from non-controllable costs for the purpose of performance evaluation. This is consistent with our Table 1 predictions and the survey findings of Ueno and Sekaran (1992, cited in Radebaugh *et al.*, 2006, p. 389) for Japanese companies. The “harshness” of being held accountable for non-controllable items is balanced, however, by bonuses not being based on budget attainment and slack being to a certain degree acceptable. We wonder whether slack arose partly as a Japanese reaction to accountability for non-controllable items or whether the features are best viewed as some integrated package that reflects the Japanese view as to how the world operates.

We believe that our finding of accountability for non-controllable items also supports Hofstede’s (2001) low (high) scores for Japan on the Individualism (Power Distance) dimensions. The finding is also consistent with the high value Japanese place upon *achievement through effort* (Otsuka and Smith, 2005), rather than achievement through ability, if we take the former phrase to mean the ability to overcome and achieve in the face of any obstacle that life may generate for the individual and the group. It is consistent with the East-Asian world-view that external factors, such as luck and fate, are extremely important influences upon life and upon achievement (Triandis, 1995; Otsuka and Smith, 2005, p. 97). As a result, the concept of non-controllability is stripped in East Asian cultures of much of the negative connotation that is attached to it by Westerners.

The second-mentioned author, a Japanese national teaching sociology of education and educational psychology in rural Australia, gives his students the example of a person riding a bicycle down a busy street only to be knocked down by a second person in a parked car who has carelessly opened her/his car door. In Western culture, the person opening the car door is the one to “blame” for her/his irresponsible action. By contrast, in Japanese society, it is the cyclist who is to “blame” for not anticipating the possible unforeseen future events that might impact upon her/his freedom of movement. Clearly there is a clash of viewpoints here that reflects deep underlying ways of viewing oneself and the world. Whilst in the West we are influenced most heavily by Aristotle and Christianity Japan’s influences are predominantly Confucianism, Taoism and Zen Buddhism (Otsuka, 2006). Westerners see things in fixed categories and 0/1 binary opposites such as day/night, hot/cold, profit/loss (“either/or” thinking) whereas Japanese people’s worldviews are more integrated and synthesized (“both/and” thinking). Company disagreements based on divergent worldviews (Major and Hopper, 2005; Wickramasinghe and Hopper, 2005) may be difficult to resolve unless people learn to compassionately “stand in the other person’s shoes”. In a further example, Libby (1999, p. 127) defines a “fair budgeting process” as “[a] process that includes voice and explanation” and Bies (1987, cited in Libby, 1999, p. 129) finds that voice, explanation and decision-maker sincerity all have independent positive effects on perceptions of procedural fairness. However, clearly the manner in which voice and explanations actually occur, as well as the concept of fairness and the very act of perception itself, most likely vary significantly from culture to culture. Libby (1999) finds that there

are significant improvements in both subordinate performance and perceptions of procedural fairness when both voice and explanation are present in justifying an unfavorable budget outcome imposed in a top-down manner. However, Japanese “explanations” to Westerners tend to be perceived as anything but. As Allinson (1997, p. 187) writes in his discussion of Banana Yoshimoto’s late 1980s novel *Kitchen*, “Japanese value silence and intuition”. A Westerner may perceive that no actual explanation has been given due to the Japanese’ emphasis on silence and intuition and this may lead to first misunderstanding and then resentment (see also the Mitsubishi example used to conclude this paper). By contrast, the patient and benevolent manner of many Japanese may lead a Westerner to feel that she/he has been given “voice” even in those cases where there really is only “pseudo-participation” (Libby, 1999, p. 126).

The (Chinese Singaporean) PM places significant emphasis upon his performance relative to budget. He thinks line managers should be rewarded if they achieve favorable results relative to budget so as to “motivate” line managers “to attain corporate goals”. The PM’s preference for being rewarded relative to budget, rather than being rewarded based on actual overall company profit, contradicts (on the surface at least) Hofstede’s (2001) conclusion that Asian countries, including Singapore, rank low on the score of Individualism[4]. It is consistent with Otsuka and Smith’s (2005) argument that Chinese have a (marginally) stronger do-it-yourself ethic, and (marginally) lower group orientation than Japanese, as well as the research findings of Chen and Stevenson (1995, cited in Otsuka and Smith, 2005, p. 101). It appears that the Proliferation PM, being Chinese Singaporean, might support the performance evaluation system that Lin and Yu (2002) find exists at the Han Dan. Thus, Chinese culture may cause preferences of ethnic Chinese line managers to vary in systematic ways.

Lastly, the PM stated that non-monetary rewards (such as recognition) were “very important” to him. Presumably this means that public listing by the Finance Department of the best five performing departments, relative to budget, (partly) compensates the PM for the lack of explicit rewards for budgetary attainment. This is consistent with the Japanese group-orientation, reflected in budgetary policies and processes, being partially accepted and supported by the Chinese Singaporean PM, suggesting some similarities between Japanese and Chinese cultural values[5].

## Limitations

This literature review synthesizes prior literature in accounting, education and sociology and then develops a research agenda which could involve testing hypotheses presented in this paper’s Table 1 about the posited relationships between presumed Japanese cultural values and Japanese corporate groups’ budgetary practices. A single company small-sample pilot study has presented some evidence which appears supportive of the Table 1 hypotheses although the small sample of interviewees suggests that no generalizations should be made on the basis of the pilot study findings alone. They do, however, add insight when combined with our literature review and Table 1 research agenda hypotheses. We encourage future accounting researchers to use large-sample surveys and interview-based case studies to specifically address the research hypotheses presented in Table 1 which have not been sufficiently and adequately addressed by prior research. In fact, Bailes and

Assada (1991), Shields *et al.* (1991), Ueno and Sekaran (1992) and Quattrone and Hopper (2005) are among the very few studies in the English language academic management accounting literature to have studied Japan and Japanese companies since 1990. Studies on Japanese budgeting have been largely forgotten due to the current excitement about China. However, Japanese business and culture remain important worldwide, based on both sociological and economic criteria, and should not be ignored.

## Conclusions

Generally speaking, our pilot study results support our Table 1 research agenda hypotheses and the earlier results of Bailes and Assada (1991) and Ueno and Sekaran (1992). Bailes and Assada (1991) find that Japanese companies, as compared to their American counterparts, are more likely to use budget variances to rectify operational problems on a timely basis, and incorporate the results of variance analysis into the next period's budget. However, by contrast, Japanese companies are relatively *less likely* to reward managers based on positive deviations from budgeted figures. Viewed cynically, we may say that Japanese companies offer their line managers a stick, without any offsetting carrot (at least not an immediate, financial one). Both of these findings are consistent with budgetary practices at Proliferation. We also find, consistent with Ueno and Sekaran (1992), that Japanese budgetary practice, as compared to American budgetary practice, *is less likely* to identify controllable items. We interpret this as being consistent with masculinity, collectivism and a high value placed on achievement through effort (Otsuka and Smith, 2005) in Japan, as well as the East-Asian acceptance of external causes as being primary determinants of success and failure (Triandis, 1995; Otsuka and Smith, 2005, p. 97).

We argue that our pilot study results, based on observation, personal knowledge gained through experience, and interviews with two managers integral to the budgetary process, can be explained in terms of the fact that in Japanese culture meaning is injected into achievements only within the context of the group (Salili, 1996; Otsuka and Smith, 2005, p. 100). This key Japanese cultural value is maintained and reinforced through existing policies and processes. We conclude, following Chen and Stevenson (1995), Bell and Piper (2005), and Otsuka and Smith (2005), that the Chinese Singaporean Purchasing Manager's preference for financial rewards being tied partly to budget attainment is consistent with Chinese, compared to Japanese, having a (marginally) stronger do-it-yourself ethic and a (marginally) reduced group-orientation. More extensive research on larger samples is needed to validate, extend and confirm the preliminary insights gained from our small-sample pilot study. It is hoped that the research agenda and hypotheses presented in this paper will stimulate a new wave of culturally informed management accounting research on Japanese corporate groups' budgetary practices. Japanese, non-Japanese and mixed author teams are all likely to bring fresh understanding and insight to the table.

How should a non-Japanese working in a Japanese corporate group respond? This includes Asians such as Hong Kong Chinese and Filipinos who are from more egalitarian and individualistic cultures than the Japanese[6]. Mitsubishi's decision to close its Adelaide (Australia) factory early in 2008 saw a cultural misunderstanding occur (Walker, 2008). The friendliness of Japanese officials and their unwillingness

to provide clear verbal and firm “closure” statements gave the Australian manager of the Australian operations, Robert McEniry (and his predecessor Tom Phillips), false hopes for several years that a closure decision *had not yet already been made years ago* by the HQ in Japan. South Australian Premier Mike Rann called the closure “the death of 1000 cuts” and is reported to be “infuriated”. The Australian operations were effectively left to die but Australians inside and outside of Mitsubishi were left unaware of these intentions. Consistent with our research hypotheses presented in Table 1, plant closure was a decision made totally 100% by Japan HQ.

Japanese bosses are unlikely to provide clear and unambiguous statements of intent especially where delivery of bad news is concerned. A person is expected to read between the lines and pick up the cues hence the importance placed by Japanese on silence and intuition. It is important to build trust with bosses and colleagues and be willing to mix and interact outside work hours. This will open the door to being included in informal decision-making contexts (*nemawashi*). The worker must be willing to identify with the company, its history, tradition, culture, worldviews and goals to a greater extent than the worker may be used to or feel comfortable with. In public meetings confrontation should be avoided wherever possible; key individuals should be “brought onsite” in more informal settings. The worker should avoid bragging about triumphs, especially personal triumphs, and avoid being viewed as a lone ranger. The worker must try to accept a worldview where quality, continuous improvement and patience are paramount virtues as is the ability to foresee negative events. The worker should be willing to surrender usual Western-style boundaries between “company” and “self” and between “company time” and “personal time”. However, it is simplistic to view Japan as nothing but hierarchical and patriarchal since the Japan Socialist Party (JSP) and Japan Communist Party (JCP) have historically both gained 10% or more of the votes in Japanese elections and Japan, like Korea, has an independent trade union movement although admittedly its militancy has declined since the 1947-1955 period (Allinson, 1997, p. 66-75). Senior executives often lead by example, such as the legendary Toyota chairman Fujio Cho who opened the first American Toyota plant in Kentucky – at that time he signaled his willingness to integrate with the local community by joining in Rotary clubs, eating at diners and going bowling (Welch *et al.*, 2007). Japan also has a much lower average ratio of highest executive salary to minimum workers’ salary than both Australia and the USA where these ratios have skyrocketed to obscene levels in recent years (see e.g. Anonymous, 2008)[7]. This leading by example and admirable restraint allows Japanese companies to maintain trust, cohesion and strong relationships in the workplace and can work to counter the negative aspects of High Power Distance and High Masculinity. Are Japanese companies Marxian “workers’ paradises” (Marx, 1994b; Marx and Engels, 1994a) or are they oppressive Foucauldian prisons of surveillance and control (Foucault, 1979, 1980a, 1980b, 1980c, 1981)? To a large extent this is in the eye of the beholder as it involves a subjective weighting of a number of factors. Regardless of personal viewpoints, however, it can be certain that Japan will continue to amaze, delight, perplex, frustrate and confuse foreigners in the years ahead.

## Notes

1. Allinson (1997) provides a short and accessible introduction to Japan’s postwar history.

2. In his review of the functionalist school of sociology's theory about the functions of schools, Robertson (1977, p. 350-3) lists the following six alleged functions: (a) cultural transmission; (b) social integration (more frequently called "socialization"); (c) personal development; (d) screening and selection; (e) innovation; and (f) latent functions.
3. Sales volume is a key variable which reflects market share, market penetration, industry leadership and industry dominance. It *takes effort* to secure the market share gains that drive sales volume and it reflects well upon the group. The cost-cutting, that might translate revenue growth into profit growth, is regarded as secondary to the Japanese in the sense that it should follow naturally from intense R&D within the Group, and through building key relationships with a network of reliable supplier partners. Since suppliers are viewed in Japan as part of the insider network, the forerunner to the concept of competition in the global world being increasingly "supply chain against supply chain" (Kurnia and Johnston, 2001, p. 230), profit gains are seen as largely internal, whereas revenue gains are seen as *achievement* in the context of the market.
4. Singapore ranks number 39/41 out of 53 countries on Individualism (Hofstede, 2001, p. 215). However, Singapore's extremely low ranking on Uncertainty Avoidance (number 53 out of 53 countries; Hofstede, 2001, p. 151) is consistent with the Singaporean Purchasing Manager's willingness to take risks with his pay package to achieve bonuses if he can beat the budget target.
5. Some might claim that the PM's acquiescence is due to purely pragmatic reasons. In other words, as he is working for a Japanese company he may perceive a need to largely adapt to their system and values. However, that pragmatism may itself be a shared Japanese and Chinese cultural value. It may hint at *why* Japanese and Chinese in the workplace value collectivism, hierarchy and harmony, i.e. they are a means to achieve other desired goals (such as profitability) and not only an end in themselves.
6. The fourth-mentioned author is a Hong Kong Chinese with 10 years of working experience in Hong Kong and mainland China. She worked for the Sony subsidiary in Hong Kong for a year in 2000 as internal auditor and attests to (a) the cultural differences between Chinese and Japanese; and to (b) the "Japanese cultural hegemony at overseas subsidiaries" thesis both argued for in this paper.
7. Allinson (1997, p. 138) reports that the difference between average income of the top 20 percent of all households and the bottom 20 percent remained unchanged from the 1960s to 1989; average incomes at the top were still 2.7 times higher than average incomes at the bottom. In 1989 a young worker in a small factory earned ¥130,000 per month; a middle-aged white-collar worker in a medium-sized enterprise ¥350,000 per month; and an older man in a large firm ¥500,000 suggesting a difference in average salary of 3 to 4 times in 1989. Even as late as 1997 Allinson (1997, p. 194) was able to write that "[t]he diffusion of wealth has muddled the signs of status by making them accessible to many people, so social standing is shifting and ambiguous".

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