

# **An exploration of how the national culture in which a company operates affects the choice of Management Control Systems**

Authors: Selemon Setaregu (24717) Mateo Murra (24985)

Supervisor: Gianluca Delfino

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## **Abstract**

Throughout this thesis, our research dives into the intricate relationship between national culture and management control systems (MCSs) in multinational corporations. In an increasingly globalized business world, understanding this relationship is pivotal for companies operating across diverse cultural landscapes. The thesis uses a qualitative exploratory multiple case study approach, focusing on *Electra Global's* operations in Europe and South America. Through in-depth interviews with seven employees and managers across these regions, our study seeks to uncover how regional culture influences the choice and effectiveness of MCSs within the same multinational corporation. The thesis primarily draws upon Hofstede's cultural dimensions and Merchant's and Van Der Stede's work on MCSs as theoretical braces.

Previous findings suggest that cultural values, particularly individualism and power distance, significantly impact the implementation and preference for different types of MCSs. The European context, characterized by low power distance and high individualism, aligns with a management style that minimizes behavioral constraints and empowers employees. In contrast, the Latin American context, especially in Peru, exhibits higher power distance, leading to a more structured and controlled MCS approach. However, variations within the same cultural regions indicate that organizational culture and the centrality of cultural dimensions also play crucial roles. This study contributes to the existing literature by not only exploring under-represented regions (Latin America) in MCS research but also by highlighting the importance of distinguishing between central and peripheral cultural values in cross-cultural management studies. It challenges and extends previous research findings, thereby opening avenues for further studies in the field of management control systems and their interplay with national culture.

\*Please note that Electra Global will be used as a pseudonym for a German multinational technology conglomerate.

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## 1. Introduction

In the past 2 decades, over 20 million companies have begun to operate internationally. There are currently at least 333 million firms that operate worldwide (Einar H. Dyvik, 2022).

As the business world becomes more and more globalized, the need to understand the relationship between national culture and management control systems becomes critical. Today, many corporations have developed a multinational presence and are therefore forced to ask themselves whether they should continue to use their current management control systems (MCSs) or design new ones as they enter a foreign market. While confronting this dilemma, it is important to consider the following general questions: To what extent MCSs are affected by the national culture? Is it possible that certain national cultures are better aligned with certain MCS practices? Could certain cultures clash with certain MCSs?

Benefits could be derived from a deeper understanding of how culture may affect MCSs, however, the research area remains in its infancy stage; research has lagged behind the rapid globalization of the business world. Most research has been directed toward MCSs in a single country, where the role of national culture has yet to be extensively examined (Harrison and McKinnon, 1999). A limitation of the previous cross-cultural research on MCSs is that it has almost exclusively compared Western countries to East Asian ones and many regions of the world have thus yet to be included in the research.

Apart from this, previous research has also been conducted under the context of comparing different firms across different countries, which could do a poor job of isolating culture as a variable, making it more difficult to find relationships between culture and MCSs. Finally, previous research fails to distinguish between central and peripheral cultural values. In other words, while conclusions may be drawn about differences in cultural dimensions, previous research does not determine nor emphasize the weight of these cultural dimensions respective to the country or region. A certain cultural dimension may matter quite a lot in one place yet be overlooked in another. We therefore see a clear gap in this research area and a need to further explore and expand upon it.

This is significant because, with the current research that exists, it is difficult to be certain or make use of these findings when referring to organizations that operate in areas outside of Western countries and East Asian ones. Considering that we'll be exploring Latin America and Europe we'll now be closer to determining if these findings continue to stand in other cultures or if they don't. Also, because most research has been done by comparing different firms in different countries, an argument could be made that any previous findings could be attributed to the fact that research was done across separate entities and that any perceived differences in MCSs are a result of company culture rather than regional culture. By conducting our research within a single entity: Electra Global, we'll be isolating the culture variable as much as possible to focus only on national culture.

Finally, the importance of discerning between central and peripheral cultural values becomes prevalent when comparing across different countries. While some regions may have vast differences in a certain cultural dimension, it doesn't necessarily mean that these differences hold much weight if they are peripheral. In general, these gaps need to be solved to strengthen

the certainty level of previous findings and inch closer to eliminating the ambiguity of what previous research has stated.

Our study aims to answer the following research question: How does the national culture in which a company operates affect the choice of Management Control Systems?

To answer our research question we will conduct a qualitative exploratory multiple case study, where we will interview seven employees and managers who work across different places. Four of which operate in Europe and the remaining three in South America. Collecting data from these two departments, which are located in regions that in many ways have contrasting cultures from each other, will allow us to explore whether there is any relationship between the regional culture surrounding a company and its choice of MCS. It is important to note that the purpose of our research is limited to only exploring potential relationships between regional culture and the choice of MCSs. We will thus not draw any conclusions on whether certain MCSs are better suited for specific cultures.

When describing culture we will use the work of Hofstede as a basis. We will look at the six cultural dimensions found in his research: power distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance, long-term vs. short-term orientation, and indulgence vs. restraint (Hofstede, 2013). We'll use our data to figure out which ones are central and which ones are peripheral in Latin America and Europe. When describing management control systems we will rely on Merchant's and Van Der Stede's work (2017). We will focus on three different categories of MCS: Result controls, Action controls, and Personnel controls.

This thesis is intended to advance previous research by continuing the existing conversation, but now with more data to either strengthen or challenge previous findings. If our findings align with previous research, one can use previous findings more confidently. If the opposite occurs, our thesis will challenge previous research and enhance the need for further studies in Latin America and Europe. As most research in this field tends to do, we will continue to analyze culture through the lens of Hofstede's research. This means that we will not be adding any innovative perspectives when it comes to discussing culture. We will, however, use our data to see if previous research continues to stand.

## 2. Literature and Theory

### 2.1. Defining management control systems and national culture

#### 2.1.1. Management control systems

When defining MCSs in the theoretical framework of our thesis we rely on Merchant's and Van der Stede's book "Management Control Systems" (2017). In their book a MCS is said to be "...defined broadly to include everything managers do to help ensure that their organization's strategies and plans are carried out or, if conditions warrant, are modified". Also noteworthy is that they take on the object-of-control framework when describing MCSs and while doing so divide MCSs into three different objects of control: Result controls, Action controls, and finally Personnel/Cultural controls. We choose to include all but cultural control in our theoretical framework since we believe greater insights can be found between the more formal aspects of MCSs and national culture.

Result controls were defined by Merchant and Van der Stede (2017) as a MCS that focuses mostly on outcomes, targets, and performance. The first part of this control system consists of an outline and a specific definition of performance while also ensuring that they are in line with company goals as well as stakeholder interests. The bottom line with Result controls is 'what you measure is what you get'.

Performance, in this context, is defined using both objective (such as profits, market share, ROI, customer satisfaction, etc) and subjective (such as being a team player or personal development) measures. Once performance is defined, it must be measured. Setting targets is a crucial part of Result controls, intended to increase motivation and pave a clear way for employees to assess their performance. If the targets set are not in line with company and stakeholder objectives, then it could result in ineffective measures or at worst a loss of motivation. The final part of the Result controls includes the reward systems. Rewards can be extrinsic (such as bonuses, promotions, vacation days, etc) or intrinsic (such as personal achievement or public recognition). The main idea here is to deliver the most motivational effect possible while staying cost-effective.

Action control is, according to Merchant and Van der Stede (2017), the most direct MCS, focusing on the specific set of core actions within an organization. Action controls can be broken down into 4 different forms. The first is behavioral constraints, which means limiting the actions of employees to ensure they act in the firm's interest. The second is preaction reviews, this is when a manager will carefully examine any action plans before they are implemented. The third is action accountability, here is where employees are held responsible for their actions. Action accountability is undertaken firstly by communicating expectations and what is acceptable or not, monitoring actions, and finally either rewarding or disciplining. The final form of Action control is called redundancy. This is where resources and personnel are overallocated to increase the reliability of the task being completed.

By narrowing focus around the actions themselves, this MCS holds a strong grip over the core operations of the company.

Personnel controls are described, by Merchant and Van der Stede (2017), as a MCS that leverages the intrinsic motivation of employees; the idea is to make employees want to perform optimally. This system builds on the assumption that employees are naturally determined to perform and commit. Similar to Result controls, the first step here is to set clear expectations and make sure that employees have the right skills and tools to complete their tasks.

The success of Personnel controls depends significantly on the employee selection and placement process. In other words, the requirements of a task must be aligned with the skill set of the respective employee. Placing the right people in the right place is one half, but training and educating is the other half. The idea behind educating and training is to create motivation as well as orienting employees; and making expectations explicit. The core of Personnel controls is to create pensive tasks as well as provide the right tools and skill sets for those completing the task. Jobs should be designed in a way that optimizes the employees' abilities, giving them the highest chance of finding success. When an environment where employees' capacities are both recognized and maximized is created, the organization will have the ability to perform successfully.

### 2.1.2. National culture

When discussing culture in our thesis we do so from the perspective of Hofstede's work. He describes culture as "the collective programming of the mind distinguishing the members of one group or category of people from others" (Hofstede, 2013). Hofstede's work includes six dimensions that describe different aspects of national culture, all highlighting an extreme on each end of the dimension. The six dimensions are power distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance, long-term vs. short-term orientation, and indulgence vs. restraint. Below a more thorough description of each dimension is given.

Power distance relates to the extent the people of a country expect power to be equally distributed. High power distance cultures both expect and accept hierarchy and authority, while low power distance cultures lean towards equality and more collaborative decision-making. Individualism highlights self-interest whereas collectivism instead focuses on the interests of a group or even society at large. Individualistic cultures tend to favor personal freedom and achievement, whereas collectivist cultures tend to favor group harmony and loyalty. The masculinity vs. femininity dimension describes the degree to which a national culture favors traditional masculine traits such as competitiveness and assertiveness, as opposed to traditional feminine traits like cooperation and nurturance. The more masculine cultures tend to focus on material values and success whereas more feminine cultures tend to focus on interpersonal relationships, quality of life, and concern for the weak (Hofstede, 2013).

Uncertainty avoidance describes to what extent a national culture tolerates the uncertainty of the future and how it deals with it. National cultures that score high in this dimension experience more anxiety when faced with uncertainty and rely on rules and protocols to minimize uncertainty. Cultures scoring low in uncertainty avoidance, experience less anxiety when faced with uncertainty, making them more accepting of change and innovation. The long-term orientation vs. short-term orientation dimension describes how a national culture maintains its links with its past while also tackling the present and future. Cultures that are short-term oriented tend to hold on to their societal norms and traditions while maintaining a suspicious attitude towards societal changes. Long-term orientation cultures take on a more pragmatic approach, where less emphasis is put on conserving traditions and more emphasis

is put on preparation and adaptability for the future. Finally, the indulgence vs. restraint dimension tells us to what extent people try to control their desires and impulses. More indulgent cultures tend to value personal enjoyment, whereas more restrained cultures tend to value suppression of gratification and self-control (Hofstede, 2013).

## 2.2. Overview and limitations of previous research

Cross-cultural research in management accounting is a fairly young research field that started with simple comparative international studies such as the study by Chiu and Chang (1979) which compared management accounting techniques between American and Taiwanese companies and the study by Whitt (1979) that found differences in the degree of budgetary participation between Mexican and American companies. It wasn't until about half a decade later that researchers criticized these papers for not thoroughly defining culture. It was said to be treated as “a packaged, unexamined variable” (Rohner, R. P., 1984).

As the research field evolved the conceptualization of culture made by Hofstede started to be adopted by most of the cross-cultural research on management control systems, and it is to this day the conceptualization of culture that is used most frequently. Hofstede's initial research grouped culture into 4 dimensions (Hofstede, 1980) which in later research got extended to include 6 dimensions: power distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance, long-term vs. short-term orientation, and indulgence vs. restraint (Hofstede, 2013). A more detailed description of each dimension is found above, under the heading: “Defining Management Control Systems and Culture”.

Even though the quality of cross-cultural studies on MCSs improved, as culture started to be defined in the studies through the usage of Hofstede's work, there remain several limitations within the research topic. One of these limitations is that the research mostly has been based around Hofstede's value dimensional framework of culture, and by doing so has left out other perspectives on culture that may have given us a richer understanding of potential relationships between culture and MCS (Harrison and McKinnon, 1999).

Another limitation raised by Harrison and McKinnon, in their review of the previous research on cross-cultural MCS studies, is that the research field has seen very few corroborative



studies. It is said to have “grown like a Topsy”, growing a bit here and there, but lacking any underlying systematic pattern. The reason for this is that the recent studies, despite using a similar underlying conceptualization of culture, differ in several ways. One of which is that they tend to focus on different MCS characteristics, and even when studies have focused on the same characteristic they still tend to not share the same operational definition of that characteristic. These differences have, according to Harrison and Mckinnon, made it difficult to assess any convergence or disparity in the findings of the previous research.

An additional limitation of the previous research is that it fails to take into consideration the *varying intensity* of the cultural dimensions in the different countries. Lachman, Nedd and Hinings (1994) argue that “the impact cultural values have is determined by their centrality within the value system of a cultural setting more than by their prevalence in this setting”. They describe values that are central to a culture as core values and those that are not as peripheral. This in essence tells us that it isn’t enough for countries to score differently in Hofstede’s cultural dimensions for us to expect a difference in their MCS practices, but rather, that the cultural dimensions also must be of high centrality for both countries.

Harrison and Mckinnon (1999) argued that this distinction between core and peripheral values may help to explain some of the disparity in the findings of the previous research. An example of this would be the research conducted by Ueno & Sekaran (1992). Their study compared budgetary practices between companies from Japan and the U.S., and they found that the hypotheses that were based on differences in the cultural individuality dimension were supported, while the hypotheses based on uncertainty avoidance were not supported. Similarly, Birnbaum and Wong (1985) found that Hong Kong companies had a preference for greater centralization of decision-making than U.S. companies, which was reflected in their higher scoring in power distance, but they found no differences in MCS practices related to uncertainty avoidance, which the two countries also scored differently on.

Harrison and Mckinnon (1999) refer to research that shows the somewhat insignificant nature of uncertainty avoidance in Asia (Hofstede & Bond, 1988), and suggest that the disparity found in the two previously mentioned studies, when viewed through the lens of the core and peripheral value perspective, was created because uncertainty avoidance constituted a peripheral value in Asia. Consequently, future research should adopt a more nuanced approach that emphasizes the centrality of the cultural values countries differ on. This would

improve the likelihood that relationships between culture and MCSs are drawn from central cultural values rather than peripheral ones, leading to more accurate and insightful findings.

Harrison and Mckinnon (1999) believe that they found a reasonable convergence of support for a relationship between culture and MCSs in their review of the previous research. They do, however, highlight that their assessment needs to be guarded given the earlier mentioned limitations of the previous research.

### 2.3. Relationships between MCSs and national culture found in previous research

Harrison (1993) found that a strong dependence on accounting performance measures and budgets in superior evaluative style correlated with reduced tension and increased job satisfaction in countries with high power distance and low individualism, represented by Singapore in his study. Conversely, minimal reliance on these measures and budgets was linked to lower tension and greater job satisfaction in countries characterized by low power distance and high individualism, represented by Australia in his study.

An evaluative style that relies heavily on accounting performance management is said by Harrison (1993) to allow little influence from subordinates and to treat subordinates as a collective. It effectively blocks the subordinates from being represented in the evaluation process, which goes against the belief of a low power distance culture. The evaluation style also relies heavily on standardizations which leaves little room for personalized evaluations and thus goes against the belief of a high-individualism culture.

Tallaki and Bracci (2015) compared the MCS practices of two Italian parent companies and their subsidiaries in Morocco. They found that low power distance and high individualism cultures, represented by Italy, had a preference for a more collaborative approach when planning and creating goals. In contrast, high power distance and low individualism countries, represented by Morocco, had a preference towards a more authoritarian approach. Their research also showed cases in which a hybrid approach was taken by the subsidiary, where MCS practices that partially reflected both cultures were adopted. Murphy's study (2003), which examined management control preferences among Mexican and American students,

revealed contrasting findings. Despite Mexico's high power distance and low individualism, students from both Mexico and the U.S. showed a slight inclination towards collaborative planning.

Chow, Shields, and Wu (1999) also found a relationship between individualism and management practices. In their study, individuals from high-individualism countries showed a stronger preference for being accountable for their actions compared to those from low-individualism countries, who accepted having less control over their work-related actions.

Ueno and Sekaran (1992) posit that employees and managers in an individualistic society will look out for their self-interest and that their goals, therefore, may not align with the ones of the organization. This leads to a greater need for formal communication and controls so that the interests of the organization and employees are aligned. Could this always be the case? This was supported in their study where they compared the budget practices of Japan and the U.S. The U.S. was shown to use more formal communication and coordination in its budget planning process and was also the more individualistic country of the two. Ueno and Wu (1993) conducted similar research, once again on the subject of budgeting and culture and with a comparison between the U.S. and Japan, and found support for the same findings. Finally, Harrison and his co-authors (1994) found a greater preference for decentralization among the individualistic countries of Australia and the U.S. when comparing them to Singapore and Hong Kong.

The study by Carmona et al. (2014) found that US MBA students, belonging to an individualistic culture, had a greater preference towards performance evaluations that were based on financial dimensions compared to Spanish students who belonged to a more collectivist culture. Similar results were found in the study by Choe (2004), where the information that was provided by management accounting information systems by companies in Korea and Australia was compared. Choe found that the more individualistic country, Australia, provided more financial information than the less individualistic country Korea. In their literature review on cross-cultural research concerning MCSs, Mitter et al. (2023), argue that the preference for financial measures may be explained by it being regarded as individualism-oriented information and that it may allow the individualistic employees to maximize organizational success through individual performance achievements.

Hofstede (1980) argues that in societies with high individualism, several key aspects are more valued compared to low-individualism societies. These include (i) placing greater emphasis on freedom and challenge in jobs, (ii) managers seeking leadership roles and diverse experiences, (iii) higher regard for managerial autonomy, and (iv) societal encouragement of individual initiative, as opposed to low-individualism societies where such initiative is often socially discouraged. The relationships between individualism and MCS practices found in the above-mentioned studies have very much been in alignment with the individualistic values raised by Hofstede.

When looking at other cultural dimensions, the relationships with MCSs have been less clear. As mentioned earlier, uncertainty avoidance has not been of significant value when comparing differences in MCSs between Western and Asian countries. This may be because the cultural dimension is of less importance in Asia, and can be seen as a peripheral cultural value there. Long-term orientation, masculinity vs femininity, and indulgence have not been included in as many studies as the other cultural dimensions, and it is still unclear how they may relate to MCSs.

It is also important to mention that some of the previous research failed to find any meaningful relationship between culture and MCSs, such as the study by Merchant, Chow, and Wu (1995), which failed to find a significant relationship between national culture and the measurement, evaluation, and reward of profit center managers. Their findings showed that long-term orientation and individualism, the two cultural dimensions they considered, were not among the significant variables that affected how management practices differed between the U.S. and Taiwan. The study by Leach-López et al. (2008) also failed to find conclusive results concerning the cultural effect of budgetary participation on performance when comparing US managers that worked in the US with Mexican managers that worked for US-controlled factories in Mexico. There are also other examples, that together with these, indicate the mixed results that still exist in the research field.

## 2.4. How we aim to contribute to the research field

Our thesis will not contribute to the first two limitations we mentioned, the first regarding the tendency to only use Hofstede's research to conceptualize culture and the second regarding the lack of underlying systematic pattern of the research field. We do, however, see a great need for future research to answer these limitations.

Our thesis will thus continue to rely on Hofstede's work and will continue the somewhat unsystematic growth of the research field. We will, however, contribute to the research field in other ways. To begin with, our research will attempt to discern between central and peripheral cultural values when looking for relationships between culture and MCS, which, as mentioned earlier, has not been done in a lot of the previous research. To do this we will gather our data through open-ended interviews instead of surveys, which is how most of the previous research has collected their data. The open-ended interviews will allow for more in-depth data collection which will make it easier for us to discern whether the cultural values in question are central or peripheral.

We will also contribute to the research field by collecting part of our data from South America, little research has been focused on countries outside of the Western world and East Asia. Including other countries in the research will help us to determine to what extent the existing relationships found between MCSs and culture can be generalized to other countries with similar cultural profiles. For instance, we could ask ourselves whether a country with high power distance in South America exhibits a relationship with similar MCSs as observed in a high power distance country in East Asia.

Another way in which we will contribute to the research field is by conducting cross-cultural research in the context of a single corporation, instead of comparing different corporations like most previous research has done. We believe that conducting the research in the context of a single corporation will introduce new challenges and potential insights to our thesis. Apart from this, focusing on a single corporation offers the advantage of, to a certain extent, isolating culture as a variable. This enables us to more effectively identify relationships between MCS and regional culture. This approach proves advantageous compared to comparing different corporations, where other factors may complicate the identification of such relationships.

A multinational corporation, like Electra Global in our case, is faced with the decision of either adapting its domestic MCS practices to align with the cultural context of a foreign country or establishing an organizational culture in its overseas subsidiary that allows for the implementation of its domestic MCS practices. The research of Chow, Shields, and Wu (1996) found support for the former case in their research, where Japanese and U.S. companies operating in Taiwan significantly modified their MCSs to suit the different Taiwanese culture. This corresponds well with the findings of Tallaki and Bracci (2015), where Moroccan subsidiaries of Italian companies adopted a hybrid approach to their MCS practices, incorporating elements from both their domestic and foreign cultural backgrounds. The research of O'Connor (1995) found support for the latter case in his research, where firms were shown to modify their organizational culture to allow for the usage of their domestic MCSs.

### **3. Methodology**

#### **3.1. Research Design**

To answer our research question we will conduct a qualitative exploratory multiple case study. The relationship between a company's regional culture and its choice of MCS remains an underexplored topic, with limited existing research. Conducting an exploratory case study, as stated by Yin (2018) would be a good way of building on prior knowledge and understanding of a fairly unexplored field.

Yin (2018) raises three criteria to consider when choosing the research method: the form of the research question, whether control over behavioral events exists, and finally whether the events are contemporary or historical. In the case of our study, a "how" question is asked, where we will explore a set of contemporary events over which we will have no control: *How does the national culture in which a company operates affect the choice of Management Control Systems?* This makes a case study the preferred choice of research method according to Yin.

When it comes to the choice between single versus multiple case studies, Yin states that the multiple case study is used when you either predict similar results for the different cases or predict contrasting results based on anticipatable reasons. Given our interest in exploring whether an organization's choice of MCSs is affected by its regional culture, we have found that conducting a multiple-case study would be necessary, as it will allow us to make comparisons between companies that are surrounded by contrasting regional cultures.

For our research, we will focus on two different sections of a corporation. The first section will consist of managers and employees who mostly operate in Colombia and other Latin American countries. The other will be made up of managers and employees who mostly work in Germany and other European countries. We have decided to focus on the corporation Electra Global. Given that the corporation has divisions in the countries of our interest, and that we were able to secure suitable contacts, Electra Global seemed to be the best choice.

We believe that having an analysis on a corporate level is compatible with our research question since it will help to further isolate the effect the cultural variable has on a company's choice of MCSs. An analysis on a broader scale, such as an industry analysis, would include more variables that affect the choice of MCSs, making it more difficult to identify relationships between culture and MCSs.

### **3.2. Data Collection**

We will conduct three interviews in the Latin American segment and four in the European, totaling seven interviews. Each interview lasted anywhere between forty-five minutes to an hour. The interviews were conducted through video calls and were semi-structured. A semi-structured interview is better suited for an exploratory study, consisting of open-ended interview questions, than a structured approach (Saunders et al 2019). The semi-structured approach will give the interviewees plenty of freedom when answering our open-ended questions, but it will also allow us to ask the interviewees to expand on certain details that may be unclear and require a richer description. In employing the semi-structured interview format, our goal is to give as much freedom to the interviewees as possible, thereby limiting our directive influence and avoiding the imposition of our biases. This approach is at the

same time balanced against the risk of overly relinquishing control, possibly resulting in the collection of data less relevant to the thesis. This risk of giving up too much control and collecting irrelevant data is why we chose a semi-structured approach over an unstructured one for our interviews.

Our original idea was to exclusively interview employees from the German and Colombian divisions of Electra Global, but we broadened our data collection to include several divisions from Europe and South America because of limitations in access. The thesis has therefore taken on a broader comparative case study approach, where European divisions are compared to South American ones. We do see how comparing continents instead of countries may make it more difficult to find relationships between MCS and culture, since both South America and Europe by no means have homogeneous cultures, but rather, vary widely when looking at the different countries within them. We do, however, still believe that our study will hold a lot of merit as an exploratory study and that this wider scope, which we now have adopted, will call for more scrutiny when concluding the data analysis.

#### Questions asked:

<b>General Questions</b>	What would you say is the most challenging part of your job? What keeps you up at night?	What do you think makes a good employee? Manager?	Do you get along with your team? What would you change about your team?
<b>Result Controls</b>	How well aware is your team of their goals/objectives?	What type of corrective actions are used when someone at the firm is underperforming?	How do you evaluate the performance of your employees / how is your performance evaluated?



<b>Personnel Controls</b>	What are you looking for in an employee during the selection and placement process?	To what extent would you say your team and you yourself are motivated? Is it intrinsically vs extrinsically?	How easily does a new team member adapt?
<b>Action Controls</b>	To what extent would you say that you are given the freedom to do your job freely?	To what extent would you say that you are managed on a more detailed level?	How many people/who is involved in designing action plans?

#### Meet the interviewees:

<p><b>1.</b></p> <p><b>Pseudonym:</b> Ben</p> <p><b>Position:</b> Head of indirect &amp; invest procurement</p> <p><b>Experience:</b></p> <p><b>Department:</b> Electra Global Mobility</p> <p><b>Region/Country:</b> Europe/Germany</p> <p><b>Extra notes:</b> Manager of the interviewee 3, 4, &amp; 5.</p>	<p><b>2.</b></p> <p><b>Pseudonym:</b> Andres</p> <p><b>Position:</b> CFO</p> <p><b>Experience:</b> 30 years</p> <p><b>Department:</b> Energy</p> <p><b>Region/Country:</b> Latin America/Colombia</p>
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<p><b>3.</b></p> <p><b>Pseudonym:</b> Marija</p> <p><b>Position:</b> Indirect &amp; Invest Purchaser</p> <p><b>Experience:</b></p> <p><b>Region/Country:</b> Europe/Serbia</p> <p><b>Department:</b> Electra Global Mobility</p>	<p><b>4.</b></p> <p><b>Pseudonym:</b> Otto</p> <p><b>Position:</b> Indirect &amp; Invest Purchaser</p> <p><b>Experience:</b> 7 years</p> <p><b>Region/Country:</b> Europe/Germany</p> <p><b>Department:</b> Electra Global Mobility</p>
<p><b>5.</b></p> <p><b>Pseudonym:</b> Harry</p> <p><b>Position:</b> Indirect &amp; Invest Purchaser</p> <p><b>Experience:</b></p> <p><b>Department:</b> Electra Global Mobility</p> <p><b>Region/Country:</b> Europe/England</p>	<p><b>6.</b></p> <p><b>Pseudonym:</b> Carlos</p> <p><b>Position:</b> Indirect &amp; Invest Purchaser</p> <p><b>Experience:</b></p> <p><b>Department:</b> Electra Global Mobility</p> <p><b>Region/Country:</b> Latin America/Peru</p>
<p><b>7.</b></p> <p><b>Pseudonym:</b> Tomas</p> <p><b>Position:</b> ex-CFO Latin America</p> <p><b>Experience:</b> 40 years</p> <p><b>Department:</b> Industry</p> <p><b>Region/Country:</b> Latin America/Colombia</p> <p><b>Extra notes:</b> Retired. Provides different perspectives.</p>	

### **3.3. Data Analysis**

When we have finished conducting the interviews the next step will be to analyze the gathered data, which will be done by first listening back to the recorded interviews and taking notes of any information regarding MCS practices and culture that will be pertinent to our thesis. Once the relevant quotes of each interview have been transcribed the next step will be to look for any overarching and contrasting themes and patterns, both in each case study and also between them.

As mentioned in the data collection part of the thesis, the interview protocol aims to collect data regarding the MCS practices of the different divisions. We will then relate our findings to the cultural values that exist in the different nations according to Hofstede's research. Beyond the usage of Hofstede's work, we will also look for cultural values in our data collection. Even though the questions originally were developed to collect data regarding MCS practices, we noticed that data regarding cultural values were also found in our interviews. This allowed us to try to discern between central and peripheral cultural values, which, as stated in our theory part, has been a limitation in previous research.

We plan to do this by first, looking at Hofstede's research to find the cultural differences between the nations in the two cases, and second, looking at our data to see which cultural values are highlighted in our interviews. Cultural values present in Hofstede's research and recurrent in our data will be classified as central. These central values will be related to MCS practices. Conversely, cultural values present in Hofstede's work but underrepresented in our data will be designated as potential peripheral cultural values and will therefore not be linked to MCSs. This way, we will attempt to discern between peripheral and central cultural values, and by doing so will try to only focus on relationships between central cultural values and MCSs.

We have used an abductive research approach since it is appropriate for an exploratory study where little is known of the research field (Dubois and Gadde, 2002). The abductive research approach allowed us to go back and forth between empirical findings and theory, and this was what allowed us to extend the contents of our thesis to also include the distinction between central and peripheral cultural values, as mentioned in the paragraph above.

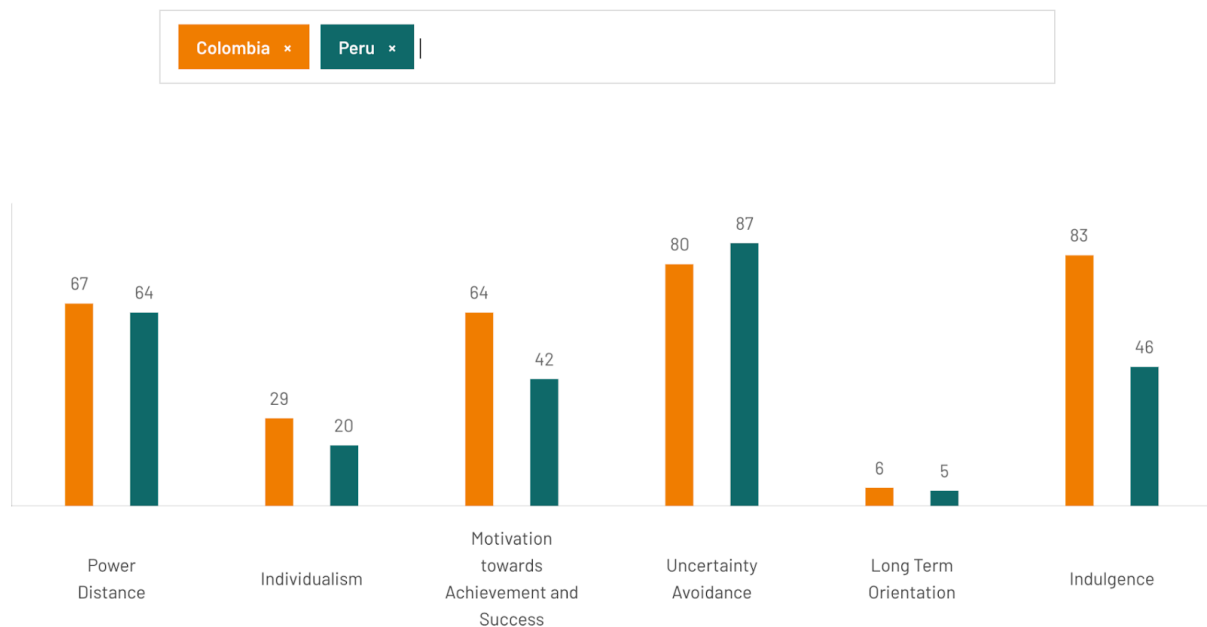
## 4. Empirical Analysis

The measurement of each country's cultural dimensions according to Hofstede's research.

<sup>1</sup>



<sup>2</sup>



<sup>1</sup> Hofstede Insights. (n.d.). Country comparison tool. Retrieved November 29, 2023, from <https://www.hofstede-insights.com/country-comparison-tool?countries=germany%2Cunited+kingdom>

<sup>2</sup> Hofstede Insights. (n.d.). Country comparison tool. Retrieved November 29, 2023, from <https://www.hofstede-insights.com/country-comparison-tool?countries=colombia%2Cperu>

## 4.1. Empirical Findings Europe

### Priority in workplace

Overall, the main priority of managers is to provide the best work environment possible for their employees and empower them. Also, all managers emphasized the importance of managing stress levels and maintaining a work-life balance. When we asked Ben what the most stressful part of his job is he gave us the following answer, 'It is important to leave important topics at your desk and not bring them back home.' While managers emphasize work-life balance, employees prioritize to be self-reliant and subsequently be given enough responsibility to level up.

### Goal Orientations

Although it is easy to distinguish good performance and bad performance, most teams are not aware of their goals or objectives. They don't keep a tight goal list or anything of the sort. When asked what their quarterly goals are, no one knew the answer! 'Everything works without a goal system; everyone is aware of what they need to do and what good performance is' - Otto. When it comes to rewarding good behavior/taking corrective action, they all claimed that intrinsic motivation (for example public recognition in the form of emails, getting invited to present, acknowledgment) lasts much longer and has a more positive impact than monetary reward systems. 'Public praise; it's free and gives people a good feeling' - Otto.

### Employee-Manager Relationships

In this region, employees and managers seem to be on the same level. This points to a low power distance between the two actors. Managers/employees don't allow their labels to restrain their responsibilities in the workplace. As Ben stated, 'Personally, I see every employee is a CEO in his respective scope.' Employees are given a lot of freedom when doing their job. Everyone, when asked about what makes a good employee, had the word *trust* in their answer. We interpreted this in a way that integrity is very important when it comes to bringing someone new to the team. 'Employees have complete freedom to do their job, in fact they are expected to work independently' - Marija. This quote depicts how managers see employees. In the European department, managers are seen more as coaches rather than bosses. A good manager is someone who empowers their employees and helps bring them to the next level. On the other hand, a bad manager is someone who

micromanages. ‘A good manager coaches, grows, and empowers their employees to get them to a place where they don’t really need a manager’ - Otto.

## **4.2. Empirical Analysis Europe**

All three empirical categories point towards a preference, both among the managers and the employees, of working under a management style that minimizes the number of behavioral constraints that are in place. The goal is to empower the employees and not to limit them and that is done by giving them as much freedom as possible. Micro-management, which is a management style on the other end of the spectrum, was seen in a very negative light by all of the interviewees.

This is, however, not to say that no action controls are in place, but rather that action accountability is used to a greater extent than behavioral constraints. Action accountability is a type of action control that gives greater freedom to employees to act independently, but it still influences their behavior by communicating expectations, monitoring behavior, and finally rewarding or disciplining the employee. Our conclusion regarding the European department was that they practiced a fairly loose action control.

The words of Otto, when asked about performance measurements, were very informative: ‘Works without a goal system; everyone is aware of what they need to do and what good performance is’. This quote, and Ben telling us about the eliminated reward system, tells us that formal performance measures and the usage of performance contingent pay are not the type of result controls that are being used at the European department. Even though performance isn’t defined nor measured formally, the interviewees still describe how they reward good performance, both intrinsically through public recognition, and extrinsically through promotions.

The usage of formal action and result controls in the European department seems to be quite limited. A greater reliance on personnel controls may be the answer to why these two other types of MCSs are used to a lesser extent. Describing the employee as a CEO and the manager as a coach was telling of what type of expectations were put on both the employees

and managers. Great emphasis was also put on trust, which was seen as a requirement to allow the employees the freedom to work independently. The importance of hiring the right type of people was also highlighted in the interviews. For this management style to work the employees must be ready to take on the greater discipline and responsibility that is required when working independently. The usage of personnel controls also puts a greater focus on leveraging intrinsic motivation compared to the two other types of controls. This emphasis on intrinsic motivation seems to be reflected in the data since all the people we interviewed at the European department described themselves as being intrinsically motivated and that they found Electra Global to be a great place to work, this shows considering that it is completely normal for a Electra Global employee to last for several decades working in the firm.

Referring back to our earlier discussion on central versus peripheral cultural values, the cultural values of the European department that recur and are emphasized in our data, which we thus classify as central, are characterized by low power distance and a high degree of individualism. These values were reflected in the interviewees' emphasis on empowering the employees to act independently and the eagerness among the employees to do so. It was also reflected in the trust that was put between the workers to do their jobs correctly without the usage of any tight control systems. The high level of individualism and low level of power distance in the European department, more specifically Germany and the UK, also aligns with the findings of Hofstede's research (as can be found under the heading "Empirical Analysis"). We will focus our analysis on these two cultural dimensions since they were the ones that were highlighted in our data as being central values.

When comparing the findings of our first case with the findings of previous research, some things seem to be in alignment while others do not. The findings by Harrison (1993), that a minimal dependence on accounting performance measures in superior evaluative style correlated with lower tension and greater job satisfaction in countries characterized by low power distance and high individualism, was reflected in our data. The European department had the same cultural values as the ones highlighted in Harrison's research and also had a preference towards minimal usage of more formal performance measures. Some of the arguments by Hofstede (1980), surrounding what societies with a high level of individualism will value, were also reflected in our findings. He argued that: freedom and challenge in jobs, a higher regard for managerial autonomy, and the encouragement of individual initiatives all would be valued in an individualistic society. These have all been characteristics found in our

data. The preference for a greater level of decentralization among low power distance and high individualism countries, as mentioned by Harrison's research (1994), was also reflected in our findings.

Ueno and Sakran (1992) argued that an individualistic society would value self-interest over the interest of the collective and that a greater amount of formal communication and controls therefore would be needed to align the interests of the employees and the organization. While they found support for this in their research, we did not see a reflection of this in our findings. When asked about what makes an ideal employee, Marija provided us with the following quote, 'A good employee must be involved, proactive, and committed to the company's values.' Marija wasn't the only one who emphasized the importance of an employee working for the greater good of the organization, Ben, Otto, and Harry all agreed that an employee should prioritize the organization first. The European department would rather be characterized as having few formal control systems, where something as fundamental as what constitutes good performance has not been formally communicated. It may be the case that the interests of the employees and the organization are aligned through less formal controls which negates the need for more formal ones. Establishing a strong organizational culture and hiring people that fit well in it, would be an example of how this could be accomplished. This, once again, relates to the preference for personnel controls in the European department over more formal action and result controls.



### 4.3. Empirical Findings Latin America

#### Priority in workplace

Latin American workers had nearly identical answers to the Europeans. Not a single person that we interviewed described the most difficult or stressful part of their job as being a technical function. Everyone's answer to the hardest part of their job fell into one of three categories. Either it had to do with managing relationships, prioritizing tasks, or maintaining a healthy work-life balance.

#### Goal Orientations

All managers, regardless of region, gave almost a word-for-word answer on how good performance is rewarded and bad performance is corrected. Andres' answer reciprocated nearly word for word with what Ben had said, 'It is important to congratulate in public but correct in private!' They agreed that when someone performs well they should be acknowledged in public and that corrective action should be done in private. Corrective action was described more as a mutual process where an employee and manager agree on a plan rather than a punishment. 'A mistake deserves a learning rather than a punishment' - Tomas.

Interestingly enough, it seems that Electra Global has taken a radical 180-degree turn when it comes to goal orientation, KPIs, and PMSs. When we interviewed Tomas, who, keep in mind, has been retired for three years, he told us that all employees follow the same clear and achievable goal system, 'Every employee is aware of their goals and Electra Global uses a systematic goal structure to guide employees and teams.' This is in line with what Ben told us about the old PMS which has now been removed from the company.

In fact, when we asked Carlos what his quarterly goals are, he grinned and stated 'I know I have to perform, but I can't tell you what my goals or KPIs are.' Again, we see that employees here are not well aware of their goals whatsoever. On the other hand, managers are quite aware of their KPIs. Andres, who has a manager role, told us 'As long as the company profits, everyone should share the success.' Coincidentally, Andres was actually at the yearly *Management Business Review*, during our interview with him. This is a conference where managers are acknowledged and rewarded for good performance. Although Electra Global does not follow any strict reward system, they still entertain the idea of hosting some sort of

official performance conference. It seems that Electra Global as a company does not evaluate performance based solely on numerical metrics but rather on overall company performance.

### **Employee-Manager Relationships**

Some things seem to never change, it doesn't matter where or when. Everyone we interviewed, regardless of their experience or work location, agreed that a good employee is someone who can make decisions on their own, challenge assumptions, and is in line with company objectives, '... a good employee provides innovative ideas, is proven trustworthy, and works in line with company objectives' - Tomas. This seemed to be consistent across the company, 'Someone who acts in the company's best interest rather than their own' - Andres.

One particular story did stand out from the rest. Carlos had worked in Peru and was astonished by the level of micromanagement and bureaucracy that managers used to maintain power over their employees. Specifically, employees were forced to clock in and out every day when they arrived at the office. Apart from this, managers used company cell phones and vacation days to keep a power distance from their employees. The cell phones were only given to exceptional employees, and strings were attached. If an employee was lucky enough to receive a cell phone, (s)he had to sign an agreement saying that if the phone was damaged or lost then they would be held responsible and forced to pay for the cell phone.

This is significant considering that Electra Global is a multi-billion dollar corporation while the employee's monthly salary would barely cover the fine. Apart from the phones, Carlos was surprised by how vacation days were handled. Employees were only allowed to take 5-consecutive vacation days at a time. A particular case that Carlos explained to us was regarding an employee, whose mother was visiting just for the weekend. He was not allowed to take half a day off on Friday to pick his mom up from the airport, he had to either wait until the workday ended or use 5 vacation days which would have been completely unnecessary. Carlos explained that employees should feel empowered in their workplace and these control systems resulted in the exact opposite. Electra Global-Peru was said to operate with a scarcity mindset in which employees don't have the freedom or the ease of mind to fulfill their duties in the workplace.

While there is still a *coach-to-player* relationship here, there was a more significant power distance between employees and managers. It's not on either end of the spectrum, i.e. employees are not hired to serve the boss but at the same time the hierarchy isn't completely flat. Carlos' answer demonstrated a different perspective than what the European department stated. Carlos described a good employee as someone who 'lightens the workload for their boss.' While Harry described an ideal employee as 'an empowered individual working alongside their manager.'

#### **4.4. Empirical Analysis South America**

When looking at the South American department it was less clear which direction the data was pointing towards compared to the data collected from the European department. The interview with Carlos, an employee at a lower hierarchical level in Peru, presented a stark contrast to our conversations with Tomas and Andres, who are (were) top managers in Colombia and thus occupy a higher hierarchical position than Carlos. We therefore decided to separate the findings from Colombia and Peru at first to then later compare the two to each other.

The answers given by Andres and Tomas were very consistent with the answers we got from the European division. They employed few behavioral constraints and aimed to empower rather than limit the employees. The employees were encouraged to work independently and the need for trust was mentioned as an important factor for this to work. Andres and Tomas also had a perspective on managerial roles that was similar to the one found in the European department. They saw the manager as a person who should help the employee, almost taking on a role as a coach. The quote from Andres: 'A good manager helps people shine on their own and brings employees up to the next level. A good manager can assess and understand the individuals in a supportive way', was very telling of this. These findings point towards an aversion towards tighter types of action controls such as behavioral constraints and a preference for action accountability instead, as mentioned in the European case.

The use of result controls seemed to be rather limited as well. Tomas mentioned the use of formal performance measures that were used during his time as an employee, but Andres said

that they no longer were in place. The limited amount of performance measures that were being used was for the managers, as seen in Andres's mention of the "*Management Business Review*", but they were not in place for the lower level employees. Good performance is thus not formally defined for the lower levels, but the interviewees still believed that the lower level employees knew what they needed to do to do a good job. Good performance is also said to be recognized, despite there not being formal performance measures in place, potentially pointing towards an evaluation of performance that is less formal.

A greater emphasis on personnel controls over action and result controls was seen in the answers given by Andres and Tomas. They highlight the need to hire the right type of people. These "right types of people" are described as having a good attitude, being able to provide innovative ideas, and being able to act in the company's best interest over their own. With these things in place, a need for trust among the managers was also mentioned. The reason? For managers to be able to leave the employees to do their jobs independently. Looking at the data collected from Tomas and Andres, one can only take note of how strikingly similar their answers were to the ones given by the European department. Both a high level of individualism and a low level of power distance can be identified from the answers. We once again limit our focus to these two cultural dimensions since they seem to be the most central ones when looking at the themes that were recurring and emphasized in the interviews. These cultural values that we inferred from our data are interestingly enough not aligned with what is seen in Hofstede's research. Hofstede ranks both Colombia and Peru as being low individualism and high power distance countries. We will now move our analysis to the data collected from Carlos, who works in Peru and works at a lower hierarchical level than Andres and Tomas.

As previously mentioned, there were striking similarities between the data collected from the European department and the one collected from Andres and Tomas. When it came to the choice of MCSs; both departments avoided the use of tight result and action controls and relied mostly on personnel controls. However, after interviewing Carlos, a lower-level employee who worked in Peru, we found that a significant power distance between managers and employees existed and that a great reliance on action controls was present. While Andres and Tomas prided themselves on creating a workspace that empowers their employees and helps them grow, Carlos pointed us in another direction.

When we asked Carlos what he thinks makes a good employee, he provided us with the following answer, ‘A good employee lightens the workload for their boss.’ Considering this answer was quite different than all the other answers we had gotten, we dug a bit deeper and subsequently found that employees in Peru worked under hefty rules and regulations. As mentioned in our empirical category section, employees were forced to clock in and out of work. Apart from this, they were not given the freedom to take a half day off work, if they wanted to do so they would have to use five vacation days in a row. Not only that, but if lucky enough to receive a company cell phone they would be burdened with the direct responsibility and cost of it. These are all things that are completely unaligned with Andres and Tomas’s answers and that the European department would find completely foreign.

The tight behavioral constraints, the different view on the role of employees and managers, and the lack of trust that is described by Carlos tells us that the MCS practices that were described by Tomas and Andres were not found in Peru. The two countries share similar cultural values according to Hofstede’s research, especially on power distance and individualism, which are the cultural values that have been found to have fairly strong relationships to the choice of MCSs in previous research. One would therefore wonder why these two countries that share similar cultural values adopt different MCSs.

Perhaps the organizational culture of Electra Global is strong enough to allow for the existence of MCSs that clash with the national culture in place. This would relate to O’Connor’s (1995) research, which found that a foreign subsidiary could score differently on the cultural dimensions than their local company counterparts by adopting an organizational culture. This might be the case for Colombia and would explain why similar MCSs can be used in both Colombia and the European countries despite them differing so much in their cultural values. Not seeing the same thing in the Peru division might be explained by it not adopting the same organizational culture.

The centrality of the cultural dimensions measured by Hofstede may also play a factor in explaining our findings. It could be that power distance and individualism are central cultural values in Peru and therefore affect what MCSs are used there while being less central in Colombia and therefore not having the same effect there. A greater emphasis on assessing the centrality of the cultural dimensions might provide better explanations as to why countries that score similarly on the cultural values in Hofstede’s research end up using different MCSs.

In summarizing our analysis, it's evident that additional factors, such as the ones mentioned above, and more data points, must be considered to deepen the exploration and reveal any potential connections between national culture and MCSs.

## **5. Discussion**

Spear diving into a research field that is so relatively unexplored comes with its pros and cons. On one hand, it is easy to find a research gap and make our contributions. On the other hand, there are many challenges that arise with research design given there are not many studies to take inspiration from. In retrospect, we did our best at finding our aspired contributions and designing our methodology around them. The idea behind this thesis was never to draw any final conclusions, as we know that we don't have the appropriate research design to do so, but rather to explore the effect that culture has on MCSs and ultimately share the contributions we made.

The thing that we most confidently can claim to have contributed to is the expansion of the research field to include countries outside of Western countries and East Asian ones. The emphasis on these countries can be seen in the written review on previous research by Harrison and McKinnon (1999). The inclusion of South America in our data has been a step in the right direction, but there are still many geographical regions that are left to be explored. This includes Africa and other parts of Asia & Latin America. It is important to include a diverse set of countries in the research field to see whether countries with similar culture profiles consistently use the same types of MCSs. This will tell us whether the findings from previous research, that has compared Western countries with East Asian countries, are applicable to other regions as well.

Another contribution that we aspired to make was to discern between central and peripheral cultural values. The importance of this was first highlighted by Lachman, Nedd and Hinings (1994). This takes the analysis of MCSs and culture a step further, by not simply looking at whether countries differ on certain cultural values, but by also trying to determine the extent to which these cultural values are central in the respective countries. A central cultural value is believed to play a greater role in affecting MCSs than a peripheral one, and being able to discern between the two therefore becomes very important. We tried to infer which cultural values were of higher centrality from the interviews, but we do believe that this requires a

more rigorous process. We would therefore not claim to have contributed directly to the research field by discerning between central and peripheral cultural values, but we continue to see the need for an inclusion of this perspective in future research.

We have also contributed to the research field by conducting our research in the context of a single corporation, which is a fairly unexplored approach in the research field, where comparing different corporations or companies to each other is the norm. This allowed us to better isolate national culture as a variable.

Limiting the data collection to a single corporation has highlighted the influence organizational culture may have when studying the interplay between national culture and MCSs. Although organizational culture was not an initial component of our thesis, its potential influence emerged as a notable point in our discussions. This realization has hopefully enriched the ongoing dialogue about the role organizational culture might play in this field of research. The role of organizational culture in the research field has mainly been discussed by O'Connor (1995), and we believe more researchers need to incorporate this factor in their studies.

## **6. Conclusions**

Perhaps our main contribution was broadening the research scope to include South American nations. By doing so, we also emphasized the need for more comprehensive research across many more regions of the world. The goal is to explore whether countries with similar cultural profiles consistently utilize similar MCSs. Another way that we further developed this research field was by including the distinction between central and peripheral cultural values; we acknowledged the importance of understanding the centrality of values in influencing MCSs. This led us to recognize the need for a more rigorous process in future research. The third endowment that this thesis provides is conducting research across a single organization (Electra Global). This, as mentioned many times, is a less-explored approach compared to the common practice of comparing different companies. This approach allows for a more isolated examination of national culture as a variable. We also highlighted the need to include organizational culture as an important factor when conducting cross-cultural studies on MCSs.

A large challenge that came into writing this thesis was finding the right interviewees and securing at least seven interviews. This took up much time and effort. Ideally, if we had an optimal network, we would have interviewed more than three employees from Latin America. Not only that, but we would have interviewed them several times throughout a couple of months. Interviewing someone only once can cause their personal bias to interfere with the results, imagine the interviewee is currently going through a challenging period with his/her employee/manager. Conducting several interviews with the same individual will help obtain more accurate results.

Given the budget, time, network, and travel constraints, our research answer cannot be answered with full certainty, nor was this the intention. Our aim was simply to explore this topic and contribute to paving the path in this under-studied research field. By doing so, we were able to find areas where there is a set case for future investigation. Perhaps one interesting suggestion for future research could be to dig deeper into the Peru case that was described above. All of our data from Peru came from only one individual, a future study could interview, or even observe, more workers from Electra Global Peru (or perhaps even from other international firms that operate in Peru). Finally, as mentioned in our discussion, we believe many insights can be gained by including a greater emphasis on discerning between central and peripheral cultural values in the research field, and by including organizational culture as an important factor when conducting cross-cultural research on MCSs.



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