

**The Contextual Aspects of Change in Management**  
**Accounting Systems in Transition Economies: A**  
**Chinese Case Study**

---

A thesis submitted in fulfilment of the requirements for the degree of

**MASTER OF COMMERCE**

Department of Accountancy, Finance and Information Systems

University of Canterbury

Christchurch, New Zealand

---

by Lawrence Z. Q. Liu

2006

## **Abstract**

The extant management accounting literature shows that there is little consensus on why and how change in management accounting systems (MAS) evolves within organisations over time (Burns and Vaivio, 2001) and especially how the change process can be conceptualised into a theoretical model (Burns and Scapens, 2000). Although Amat *et al.* (1994) have provided a better understanding of MAS change over time and successfully conceptualised the process into a model using the notion of dualism, they noted that the evidence of a single case study is not enough. However, there has been no further study to extend Amat *et al.*'s (1994) findings. This thesis resembles Amat *et al.*'s (1994) study, analysing the progressive formalisation of MAS in a Chinese company: Shanghai Light Industry Machinery Stock Company Limited, during periods of change at both the social and organisational levels.

It was found that three outer, social factors (socio-economic condition, competition and socio-culture) and three inner, organisational ones (autonomy, profitability and authority) have greatly impacted on the progressive formalisation of the MAS in the Chinese company during the period studied. Also, the internal effects on the MAS change differ from the external ones, mostly reflecting the increasingly specialised managers in the company having exercised a set of proactive or intentional changes in the MAS within the corporate boundary.

## **Acknowledgements**

My greatest thanks I will give to my supervisor, Dr. Beverley Lord, for the encouragement she continuously gave me, helping me to build up confidence to complete the thesis; the various suggestions she made, guiding me to step forward; and the many comments she gave, improving the quality of the thesis.

My next greatest thanks I will give to my mother, a great woman, Zhao Dee; my fiancé, Michelle; aunt Du ChunYu, thanks for supporting me to go through the long period of study.

I also wish to thank:

Meaw-Fong and Pik for their help and care during my masters study.

## Table of Contents

<b>ABSTRACT</b> .....		<b>I</b>
<b>ACKNOWLEDGEMENTS</b> .....		<b>II</b>
<b>TABLE OF CONTENTS</b> .....		<b>III-1</b>
<b>1. INTRODUCTION</b> .....		<b>1-1</b>
<b>2. LITERATURE SURVEY</b> .....		<b>2-1</b>
<b>2.1 Introduction</b> .....		<b>2-1</b>
<b>2.2 The theoretical framework drawn on</b> .....		<b>2-2</b>
<b>2.2.1 Studies of contextual aspects of change in MAS: a general review</b> .....		<b>2-2</b>
<b>2.2.2 The notion of dualism and its importance</b> .....		<b>2-6</b>
<b>2.3 Review of prior research on the MAS change in transition economies</b> .....		<b>2-9</b>
<b>2.3.1 Studies of MAS change drawing upon European evidence</b> .....		<b>2-9</b>
<b>2.3.2 Relevant studies developed outside Europe</b> .....		<b>2-10</b>
<b>2.4 The problems identified in the current management accounting literature</b> .		<b>2-14</b>
<b>2.5 Summary</b> .....		<b>2-15</b>
<b>3. RESEARCH FOCUS, RESEARCH QUESTIONS AND RESEARCH METHOD</b> .....		<b>3-1</b>
<b>3.1 Introduction</b> .....		<b>3-1</b>
<b>3.2 Research focus and research questions</b> .....		<b>3-1</b>
<b>3.3 Research method</b> .....		<b>3-3</b>
<b>3.4 Summary</b> .....		<b>3-5</b>

<b>4.</b>	<b>BACKGROUND OF CHINA'S ECONOMIC REFORM, THE REFORM OF OWNED ENTERPRISES AND THE CHINESE SETTING .....</b>	<b>4-1</b>
4.1	Introduction .....	4-1
4.2	Overview of China's economic reform .....	4-1
4.3	The reform of State-Owned Enterprises.....	4-2
4.4	Background of the company .....	4-5
4.5	Summary .....	4-7
<b>5.</b>	<b>THE FINDINGS.....</b>	<b>5-1</b>
5.1	Introduction .....	5-1
5.2	Pre-reform: the early years of SLIMSC and the MAS (1956-1978) .....	5-1
5.3	In the early years of the reform: SLIMSC and the MAS (1978-1991).....	5-8
5.4	In the period of a modernised enterprise: SLIMSC and the MAS (1991-2001).....	5-27
5.5	After privatisation: SLIMSC and the MAS (2002- ) .....	5-52
5.6	Summary .....	5-61
<b>6.</b>	<b>DISCUSSION AND CONCLUSION .....</b>	<b>6-1</b>
6.1	Introduction .....	6-1
6.2	The case of SLIMSC.....	6-1
6.2.1	Key factors at the social level.....	6-2
6.2.2	Key factors at the organisational level.....	6-5
6.2.3	The double sidedness effects on the MAS change in SLIMSC and the six multiple variables .....	6-7
6.3	Comparison with the case of DERESA.....	6-13
6.4	Conclusion .....	6-14

## Chapter 1: Introduction

Research on change in management accounting systems (MAS) and controls in their social and organisational context has become one of the major topics in the Anglo-Saxon management accounting literature since the 1990s (Williams and Seaman, 2002; Burns and Scapens, 2000). In recent years, increasing research attention has also been given to studying MAS change in the context of transition economies (see, e.g. Southworth, 1994; Bailey, 1995; Vamosi, 2000; Luther and Longden, 2001). Most of the studies on MAS change in a radically changing nation have explored a set of fundamental issues of why MAS takes the form it does, why MAS changes come about and what key interrelated factors (internal and external) there are (Amat *et al.*, 1994).

However, “the available literature has mainly stressed the existence [of] or change in MAS as the consequence of either external or internal factors to the organisation...These authors neglect the dualistic nature of organisations and accounting in organisations...” (Amat *et al.*, 1994, p.118). The notion of dualism and the dualism model proposed by Amat *et al.* (1994) supplement the extant management accounting literature regarding the complex task of how MAS change can be conceptualised into a theoretical model (Burns and Scapens, 2000). Although Amat *et al.* (1994) argued that their model may be more useful for future studies of MAS

change in the context of radically changing nations, there is no further research to extend Amat *et al.*'s (1994) findings.

This study draws upon the framework of dualism and follows the dualism model to explore the contextual aspects that have resulted in the existence of or changes in MAS in a Chinese setting. The review of prior studies shows that few studies have been undertaken in China to constitute a comprehensive understanding of the process of introducing, facilitating and restructuring MAS over time at both social and organisational levels. This study proposes to at least partially fill this gap by discussing the case of Shanghai Light Industry Machinery Stock Company Limited (SLIMSC). This study will explore the interplay of factors between the social and the organisational changes that have impacted significantly on the role of MAS at SLIMSC over the last more than forty years.

Chapter 2 theoretically reviews prior research approaches adopted in studying MAS change and presents criticisms of those studies as a way of understanding MAS change. Prior studies of MAS change in transition economies are also reviewed. Furthermore, the notion of dualism and the dualism model, proposed by Amat *et al.* (1994), are described and interpreted. Several problems in the extant management accounting literature are identified. Although the notion of dualism and the dualism model attempt to resolve the problems in the extant management accounting literature,

there is no further study to extend Amat *et al.*'s (1994) findings to other radically changing nations. This becomes the key research objective of this study.

Chapter 3 describes the research focus and outlines the research questions to achieve the research objective. Also, the research method and specific research techniques serving to accomplish a qualitative case study are described. The data collection process carried out in the company studied is detailed.

Chapter 4 briefly reviews China's economic reform over the last twenty years. The reform of Chinese state-owned enterprises is also described by reviewing Huang *et al.*'s (1998) study. The history of SLIMSC, over the last more than forty years, is described.

Chapter 5 presents the findings through illustrations of the process of MAS change in SLIMSC during 1956-2004. Following the model of dualism discussed in Chapter 2, this chapter classifies the MAS change in SLIMSC into four stages, by linking MAS change with the respective changes at both the social and organisational levels in each period.

Chapter 6 discusses the findings and identifies the key social and organisational change factors affecting MAS change in SLIMSC during 1956-2004. In comparison with Amat *et al.*'s (1994) findings, the similarities of and differences between the two

---

studies are discussed. The final conclusion is drawn followed by the discussion of the new MAS change model according to the case of SLIMSC.

## Chapter 2: Literature survey

### 2.1. Introduction

This chapter will theoretically review recent studies of contextual aspects of change in MAS, then critically discuss the frameworks those studies have drawn upon. Also, the notion of dualism and the dualism model, as argued by Amat *et al.* (1994), helping to analyse the process of design, implementation and change in MAS, will be described and interpreted.

According to Amat *et al.* (1994), studies based on the dualism model can present a comprehensive picture of MAS change at both social and organisational levels and over a long time period, in particular in radically changing nations. In this respect, the second section will review prior studies of MAS change in transition economies, identifying a list of changing factors affecting MAS change in the radically changing nations.

The third section will outline some problems identified in the extant management accounting literature concerning the issue of a contextual understanding of MAS change. This study will therefore adopt the model of dualism to extend Amat *et al.*'s (1994) study to a Chinese setting.

## **2.2. The theoretical framework drawn on**

### **2.2.1. Studies of contextual aspects of change in MAS: a general review**

Since the late 1970s there has been a growing interest in studying the context in which MAS operate...The available literature has mainly stressed the existence [of] or change in MAS as the consequence of either external or internal factors to the organisation...These authors, however, neglect the dualistic nature of organisations and accounting in organisations... (Amat *et al.*, 1994, p.118)

It has been widely acknowledged that there is a significant link between MAS and the context in which MAS operate (see e.g. Kaplan, 1985; Johnson and Kaplan, 1987; Scapens and Roberts, 1993; Amat *et al.*, 1994). MAS and controls, which are often perceived as an environmentally determined activity (Gilling, 1976), do or will have to change as environmental circumstance change (Foster and Ward, 1994) at both the social and the organisational levels (Amat *et al.*, 1994).

Studies of contextual aspects of MAS change are often carried out through the factor approach (Anderson and Young, 1999) which aims to present a list of broad external and internal factors impacting on the MAS change (Granlund, 2001). Those factors, such as technological developments, the production of knowledge, level of competition, changes in corporate governance and strategy and changes in managerial needs, have often been recognised as and subsequently been proven to be the major

causes affecting MAS change (Anderson and Young, 1999). The factor approach relates to various theories in the context of organisation theory, for instance the “adaptionist” approach considering organisational change as a consequence of environmental adaptation or the “interventionist” approach viewing organisational change as a “planned innovation” (Czarniawska and Joerges, 1996, p.14).

Following the factor approach, recent studies of MAS change have drawn upon two main frameworks. They are contingency theory and institutional theory. It has been argued, however, that contingency theory studies are outcome orientated, searching for explanations or patterns of best fit on MAS change at a certain point of time (Soin *et al.*, 2002), whereas the nature of the change is certainly an evolutionary process over a period of time (Van de Ven and Poole, 1988), for instance, “management accounting change as a process” (Burns and Scapens, 2000, p.4). Therefore, the contingency theory studies only provide a static picture of the contextual factors affecting MAS change, and the relevant evidence is limited to some particular time period in the context studied.

Drawing upon the framework of institutional theory, Roberts and Scapens (1985) argued that a contextual understanding of the process of MAS change can be established by discovering what has been changed in the roles of MAS at the organisation over the period. Furthermore, Scapens and Roberts (1993) extended their study of MAS change, concluding that the causes of the process of MAS change over

time were various historical contingencies taking place within and outside the organisation. This conclusion accords with the view of Giddens (1981) concerning the historical and contingent nature of all social reproduction processes.

However, MAS can also be analysed from a cultural perspective, and a contextual understanding of MAS change can be established by linking them to the changes that have taken place among people (Amat *et al.*, 1994). This view can be compared to Gray's (1988) theoretical model of socio-cultural influence on the development of accounting systems. Gray (1988) noted that culture or societal values will change in practice as a result of either short-term (e.g. technological change) or long-term (e.g. ideological change) shifts in physical environmental circumstances; accordingly, changes in accounting values or attitudes of accountants derived from the changing culture or societal values will, in turn, impact significantly on the process of accounting system change. Amat *et al.* (1994) argued that because of the impact of different national cultures, MAS are often designed and implemented in contexts which are different from those in which they were developed.

Furthermore, some recent studies of MAS change are undertaken based on the notion of "diffusion" (Lin and Yu, 2002) which suggests that innovative management practices or knowledge (e.g. the Japanese total quality management practice or the western activity-based costing methods) can be diffused from one firm to another within the industrialised world (see. e.g. Drury and Tayles, 1994; Kaplan, 1998), or

from developed countries to developing countries (see. e.g. Firth, 1996; Lin and Yu, 2002). Under the notion of diffusion, the transfer of innovative knowledge between corporate boundaries is the key effect on MAS change.

Despite the various research approaches that have been adopted in the recent studies of contextual aspects of MAS change, there is little consensus on why and how MAS change evolves within organisations over time (Burns and Vaivio, 2001), and especially how the change process can be conceptualised into a theoretical model (Burns and Scapens, 2000). As Hopwood (1987, p.207) commented:

Unfortunately, very little is known of the processes of accounting change. As of now we have only a limited understanding of the conditions which provide the possibility for particular conceptions of the accounting craft, the forces that put accounting into motion, the processes accompanying accounting elaboration and diffusion, and the varied human, organisational and social consequences that can stem from changing accounting regimes.

Even recently, this lack of understanding is still present (Briers and Chua, 2001) and the literature is still in its infancy (Malmi, 1999).

Some recent studies (see, e.g., Amat *et al.*, 1994; Burns and Scapens, 2000; Soin *et al.*, 2002) attempted to conceptualise MAS change with a process view, in which organisational and environmental dynamics interact with each other. Amat *et al.*

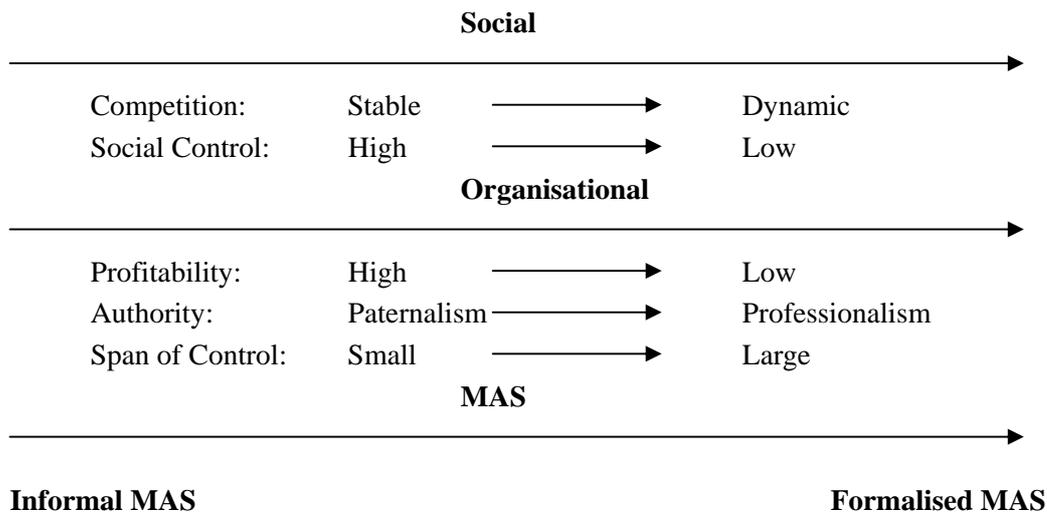
(1994) and Soin *et al.* (2002) further argued that, although many prior studies have recognised the linkages between MAS and either the external or the internal environment, they neglect the dualistic nature of organisations and MAS in organisations. These viewpoints are, by and large, informed by Giddens's (1984) structuration theory, which argues that explanations of the interrelation of MAS change, organisational change and social change are often formed in a dualistic configuration (Giddens, 1990).

### **2.2.2. The notion of dualism and its importance**

The dualistic configuration, according to Giddens (1990), is constituted as the correlation of, or difference between, the existing function of the MAS as a form of representation of organisational realities as well as of society on the one hand, and the notion of the organisation as a complex ontological entity on the other hand. That is to say, as Amat *et al.* (1994, p.118) further illustrated, one side of an organisation deals with the impact of external wider factors (social, economic, political and legal) that lead to MAS development; however, another side of the organisation is "looking inward" and focusing on the relationship between internal changing indicators "within the corporate boundary", which becomes another major force driving MAS to change. Such a viewpoint can also be linked to the resource dependence model (Pfeiffer and Salancik, 1978) which argues that, as organisations are dependent on the environment for resources, they may manipulate the environment through internal managerial

proactive endeavours in order to reduce dependence. Hence, the implementation and change of MAS is not only a response of the organisation to external pressures, but also purposefully initiated by the organisational individuals acting on the “planned innovation” (Czarniawska and Joerges, 1996, p.14).

Amat *et al.* (1994) illustrated the notion of dualism through their study of the contextual aspects of MAS change at a Spanish company, DERESA. They argued, “There is a double-sidedness or dualism in the environments inside and outside the organisation which should be taken into account when explaining the process of design, implementation and change of MAS” (p.120) in radically changing countries. They concluded that “the interactions of two outer elements (competition and social/political control) with three inner ones (profitability, authority and span of control)” (p.119) greatly impacted on the roles of the MAS, which had led to a more formalised system (see Figure 2.1).

**Figure 2.1 MAS and inner and outer variables**

*Source: Adapted from Amat et al., 1994, p.119*

Nevertheless, Amat *et al.* (1994) noted that their model of dualism, with the five multi-layered variables, is based on a single case study in Spain. There is therefore scope for extending the study to other national settings, in particular, to other radically changing nations.

Recently there have been an increasing number of studies of MAS change undertaken in the context of rapidly changing nations, most notably of transition economies (see, e.g. Southworth, 1994; Bailey, 1995; Vamosi, 2000; Luther and Longden, 2001). Also, the importance of the dualistic nature of organisations and MAS in organisations has been increasingly recognised by researchers (see, e.g. Sturdy and Morgan, 2000; Soin *et al.*, 2002, Lin and Yu, 2002). However, as will be shown in the literature review in the next section, there is no study drawing upon the notion of dualism to extend Amat *et al.*'s (1994) findings.

### **2.3. Review of prior research on the MAS change in transition economies**

#### **2.3.1 Studies of MAS change drawing upon European evidence**

In a discussion of accounting issues regarding the transition from planned to market economies in Central European countries, Gray and Roberts (1991, p.46) identified some “scope for investigating the nature and impact of changes in the accounting and control systems used.” Jaruga (1996) and Garrod and McLeay (1996) found increased use of management accounting methods to support decision making in Central European countries during the transition.

Vamosi (2000) examined how the interpretation of new concepts and ideas affected management accounting in a Hungarian, previously government-owned company. He found that to a large extent change in accounting practice at the Hungarian company was a consequence of rapid changes in the external environment. However, Vamosi (2000) does not present the key factors affecting MAS change at either the social or the organisational level in the Hungarian setting.

Conversely, Szychta (2002) presented eight contingent factors that determined the change in the scope and intensity of MAS in Poland from 1998 to 1999. They were: (1) changes in accounting legislation and laws; (2) increased competition; (3) the impact of changes in the international economy; (4) changes in the form of business

ownership; (5) new business entities with foreign capital; (6) the development of the money market; (7) new information technologies; and (8) the acquisition of knowledge by managers.

Haldma and Lääts (2002) confirmed Szychta's (2002) findings with regard to the eight influencing contingencies in examining the change in management accounting practices of Estonian manufacturing companies. They added to Szychta's (2002) findings by classifying changes in management accounting practices associated with shifts in the business and accounting environment as external contingencies, and those in technology and organisational aspects as internal contingencies.

### **2.3.2 Relevant studies developed outside Europe**

Hoque and Hopper (1994) documented the debilitating effects of political volatility and acute economic problems in Bangladesh on firms' use of formal management control practices.

Anderson and Lanen (1999) presented a broad overview of changes in management accounting practices that appeared to be associated with the economic reforms that took place in India in 1991. They found that increased competition, an increased level of delegation in strategic processes and increased internationalisation were main factors affecting changes in management accounting practices of Indian firms in 1991.

Luther and Longden (2001) reported management accounting techniques in South Africa over the period of 1996 to 2002. They found that changes in those techniques over the period were affected dramatically by the rapidly changing political and cultural environment. Their research endorsed prior findings relating to contingent factors influencing management accounting change but also identified five new factors in South Africa: increased uncertainty of the economic environment, the availability of competent staff, the removal of trade barriers, the increased cost of inputs and changes in stakeholder pressure.

Prior Chinese-based studies (covering mainland China, Hong Kong, Malaysia, Singapore and Taiwan) of management accounting techniques and practices take mostly a cultural perspective (see. e.g. O'Connor, 1995; Chow *et al.*, 1997; Brewer, 1998; Chow *et al.*, 2000; Tan, 2002). The majority of these studies are based on Hofstede's (1991, 1993) five cultural dimensions, exploring and explaining the similarities and differences between westerners and Chinese in an organisational context, and thus the different forms that MAS take. Nevertheless, none of these studies have explored the influence of cultural shifts on the development of MAS within either corporate or national boundaries.

There are, however, several China-related studies regarding the issue of management accounting change during the rapid socio-economic change in China. Skousen and Yang (1988) theoretically reviewed the development of the Chinese management

accounting system during 1950-1985 and illustrated profit centre and investment centre accounting in Chinese enterprises during the early reform. They argued that the Chinese reform policies, which “enlivened the domestic economy” and “opened [China] to the outside world” (p.206), resulted in various western management accounting methods and practices being introduced and implemented at Chinese enterprises. Thus, they claimed, the quality of managerial decision-making had been improved and the level of productivity had increased dramatically in China by the mid-1980s.

Scapens and Yan (1993) illustrated responsibility accounting systems in China before the 1990s and compared the socio-economic systems of China and the west. They concluded that Chinese business and academic societies had a great desire to learn new management accounting procedures from the west as a response to the further reform. Jefferson and Rawski (1994) pointed to the importance of the emergence of competitive markets on the China mainland as a potent force for change in management behaviour and accounting system in many Chinese SOEs. Tapen (1995) explained why western accounting concepts and methods were needed by Chinese enterprises in the 1990s since the conventional Chinese accounting system, characteristically a material production system, failed to keep up with the pace of economic reforms, particularly when the Chinese started trading with the west and allowed western multinationals to do business in local markets.

Firth (1996) provided descriptive evidence of changes in management accounting practices following economic reforms in China. However, Firth's survey study revealed that the application of western management accounting in China was still limited, and mainly restricted to joint ventures with foreign capital. In addition, the small number of accounting procedures that were similar to western management accounting had played different roles in the management process in Chinese enterprises. Firth (1996) concluded that the diffusion of western management accounting to China would be a slow process even if it were necessary and possible for Chinese enterprises to adopt western management accounting practices in the changing social and economic environment.

In contrast, using the same research approach as Firth's (1996), Lin and Yu (2002) reported that a Chinese steel company had successfully adopted a westernised responsibility cost control system resulting in dramatic cost reduction and profitability increases because of the effective control mechanisms. They further argued that western management accounting procedures and practices could play a positive role in improving business management and profitability in China as well as in other transition economies.

## 2.4 The problems identified in the current management accounting literature

The literature review presented in the previous sections suggests that there are several problems in the current management accounting literature in regard to the issue of contextual aspects of MAS change. These problems are as follows,

1. In general, the extant literature shows that there is little consensus on why and how MAS change evolves within organisations over time and especially how the change process can be conceptualised into a theoretical model. This problem might result from the researchers' holding different views on the nature of the social, organisational and MAS change and their having adopted different research approaches drawing upon different frameworks.
2. Although Amat *et al.* (1994) have provided a better understanding of MAS change over time and successfully conceptualised the process into a model using the notion of dualism, the evidence of a single case study is not enough. However, there has been no further study to extend Amat *et al.*'s (1994) findings.
3. The majority of the prior studies of MAS change in the context of transition economies has used the contingent approach. This literature not only provides a static picture of MAS change in transition economies, but also is limited to a particular point in time in the nations studied.

4. The prior China-related studies were mainly developed through the cultural comparison model; also, the evidence drawn upon is fairly out-of-date (mainly before 1996) whereas further, more rapid change both within the Chinese organisations and in Chinese society has been taking place since then.

In recognition of the above problems, this study resembles Amat *et al.*'s (1994) study in aiming to analyse the progressive formalisation of MAS in a Chinese company changing at both the social and organisational levels. This study will provide a better understanding of the process of MAS change in the context of radically changing nations. However, this study differs from Amat *et al.* (1994). DERESA is a Spanish company set in a different context of social change than that that has been taking place in socialistic China. In particular, there has been little political change in China over the last twenty years whereas there has been major economic change (Chow, 2002). In addition, there are significant differences between the west and the east in the socio-cultural context (Farmer and Richman, 1965). This study is therefore exploratory in nature, looking for possible new theoretical dimensions or multiple variables in the Chinese setting.

## **2.5 Summary**

The model of dualism, as argued by Amat *et al.* (1994), can help to provide a better understanding of MAS change in radically changing nations; in particular, studies

based on this model can conceptualise the process of MAS change into a theoretical model, which is a challenging issue in the current management accounting literature.

The next chapter will describe the research method adopted in this study.

## **Chapter 3: Research focus, research questions and research method**

### **3.1 Introduction**

This chapter firstly describes the research focus and outlines the research questions. Secondly, it describes the research method adopted in this study, a qualitative case study approach, and illustrates the model (Fleischman *et al.*, 1996) guiding this study in the collection of required historical evidence. Thirdly, it details several specific data collection techniques adopted in this study, as recommended by Yin (1984) for case studies: on-site interviews and observations, archive and documentation analysis, and collection and analysis of relevant public documents.

### **3.2 Research focus and research questions**

This study traces and analyses the process of MAS change in China at both the social and the organisational levels over the last more than forty years. It differs from many prior China-related studies that are undertaken based on Hofstede's (1991, 1993) cultural comparison model. Rather, this study pays attention to the possible influence of the nation's cultural shift on the development of MAS and the subsequent MAS change. It also differs from several other prior China-related studies that take a technical perspective, illustrating why and how some western management accounting techniques can be applied successfully or problematically in a Chinese setting (Lee,

2001; Lin and Yu, 2002). This study is not going to discuss the issue of applicability or implementability of western techniques in contemporary China. Rather, using the notion of dualism, this study concentrates on analysing the process of MAS change over time in which “environmental dynamics and organisational dynamics cross-fertilise each other” (Amat, *et al.*, 1994, p.107).

As this study is an extension of Amat *et al.*'s (1994) study to another national setting, the basic question of the study is, “What contextual aspects have brought about the existence of or change in MAS in a Chinese setting over the last more than forty years?”

In addition, this study seeks to answer the following specific questions:

1. What organisational changes has the Chinese company experienced over the last more than forty years? How did the changes take place and why?
2. What forms did the MAS take during each period of organisational change, and why?
3. What was the interrelationship between the social change process in China and the MAS change as a result of organisational change, and why?

4. What outer and inner factors found in this Chinese setting are similar to or different from the case of DERESA, and why?

### 3.3 Research methods

Amat *et al.* (1994, p.107) noted Gray and Roberts' (1991) argument that "MAS only have meaning in relation to the specific historical events relating to each country and to each organisation". Similarly, Scapens and Roberts (1993) argued that the causes of the process of MAS change over time most likely resulted from various historical contingencies taking place within and outside the organisation. It is therefore an important methodological concern for this study to seek relevant historical evidence from within and outside the case study company with regard to the MAS change over time.

Fleischman *et al.* (1996) presented a useful table (see Table 3.1) of the sources of communicative evidences for accounting histories. This study used many of these sources.

**Table 3.1 Sources of communicative evidence**

<u>Written</u>	<u>Oral</u>
Chronicles, annals, biographies, genealogies	Ballads, anecdotes, tapes, sagas
Memories, diaries, letters, newspapers	Recordings (tapes, disks)
Literature, public documents, business records	
Inscriptions	

*Source: Adapted from Fleischman et al., 1996, p.61*

Since this study uses a case study approach, seeking in-depth analysis of the MAS change process over time at the Chinese setting, the specific data collection techniques adopted in this study are those recommended by Yin (1984) for case studies: on-site interviews and observations, archive and documentation analysis, and collection and analysis of relevant public documents.

During June-July, 2005, the author conducted a one-month intensive on-site study at the case study company with the consent of the Company's current senior managers: the sales general manager, the senior accounting consultant (formerly the chief accountant) and the secretary of the board of directors: Four individual interviews were held between the author and the current senior managers. The author also conducted four individual interviews with former senior managers of the Company: the former general manager, the former vice-general manager, the former secretary of the Company's communist party committee and the former head of a subsidiary of the Company. In addition, one external senior official who currently works for the city council was also interviewed individually. All of the aforementioned interviews took place one-on-one and lasted about 2-3 hours each. Other interviews were conducted between the author and a group of selected accounting staff who have worked at the Company for more than 15 years. The group interviews lasted for 30-45 minutes each. All of the interview questions with respect to different interviewees were prepared by the author before the visits under the approval of the author's supervisor at the University of Canterbury and all of the interviewees' quotes

were taped and relevant parts were subsequently translated into English transcripts.

During the visits, many relevant documents of the Company were collected by the author with the senior managers' consent. The documentation covered the Company's business history, internal documentation of established accounting rules, procedures, practices (both the past and the present ones) and the diagrammatical forms of MAS over the different periods, and the periodical financial reports published in newspapers and on the stock exchange website. The author also reviewed archives of the Company's sales, importing and exporting, pension systems, production and respective accounting records. In addition, the author physically observed the current accounting staff's working procedures in the context of the present MAS.

The specific historical events at the social level relating to the Company's organisational change and MAS change were collected by the author from a wide range of data sources, mainly from relevant prior studies and public documents on newspapers or the website.

### **3.4 Summary**

This study, using the model of dualism, concentrates on analysing the process of MAS change over time in which "environmental dynamics and organisational dynamics

cross-fertilise each other” (Amat, *et al.*, 1994, p.107). It seeks to answer the basic question “What contextual aspects have brought about the existence of or change in MAS in a Chinese setting over the last more than forty years?” Therefore, the research method adopted in this study serves to accomplish a qualitative case study.

Several research techniques in collecting required research evidence were used in accordance with Yin’s (1984) recommendation. The next chapter will briefly review China’s economic reform and the reform of Chinese state-owned enterprises followed by a description of the history of the company studied.

## **Chapter 4: Background of China's economic reform, the reform of Stated-Owned Enterprises and the Chinese setting**

### **4.1 Introduction**

This chapter will briefly review China's economic reform undertaken over the last more than twenty years. Also, the reform of state-owned enterprises will be discussed by reviewing the research findings of Huang *et al.* (1998). The last section will describe the history of the company studied, showing the basic organisational changes that have been experienced by the company over the last more than forty years.

### **4.2 Overview of China's economic reform**

Unlike many other transition economies, in particular those of Eastern European countries, the economic reform in China was launched somewhat earlier (since 1978) with a unique reform approach of gradualism<sup>1</sup> (Huang *et al.*, 1998; Chow, 2002). As a result of the reform, the national gross domestic product (GDP) increased from US\$89 billion in 1980 (People's Daily, 1991) to US\$1.65 trillion in 2004 (People's Daily, 2005). Over the past decade, China's annual GDP growth has averaged a remarkable 9 per cent. Even during the Asian financial crisis, China posted 8.8 per

---

<sup>1</sup> A gradual reform approach (a "wait and see" method) through various experimentations.

cent and 7.8 per cent growth in 1997 and 1998 respectively. In 2001, China remained one of the best performing economies in the Asia Pacific region (Chow, 2002).

China has also been enjoying a favourable trend in foreign investment utilisation since its opening up in 1978. A recent report published on the web<sup>2</sup> shows that nearly 450 out of the world *Top 500* transnational companies have invested in China, more than 30 percent of them having set up regional headquarters.

Many studies have categorised China's ongoing reform into four phases (see, e.g. Lin *et al.*, 1993; Rawski, 1999). It began with predominantly central planning and subordinate markets in the first phase (1979-84), a combination of economic planning and market regulation in the second phase (1985-88), governmental regulation of the market and market-orientated enterprises in the third (1988-91), and finally a dominant socialist market economy since 1997.

### **4.3 The reform of State-Owned Enterprises**

In China's ongoing economic liberalisation, the reform of State-Owned Enterprises (SOEs) has been a central issue since the beginning. Although the share of SOEs in national gross industrial output fell from 85.4% in 1978 (Huang *et al.*, 1998) to less

---

<sup>2</sup> <http://strategis.ic.gc.ca>

than 30% in 1996 (Chow, 2002), SOE reform is still a policy priority in China. Huang *et al.* (1998) presented a generalised sketch of the process of change in the underlying policies and measures regarding SOE reforms in China over the last twenty years (see Table 4.1).

**Table 4.1 SOE reforms in China: development of policies and thinking**

	Key measurements	Policy debate
Pre-reform	State ownership and central planning	No incentives and low efficiency
1978— Mid-1980s	Profit-retention and management decentralisation	Granting autonomy and sharing benefits
Mid-1980s— 1990s	Contract system and share-holding	Proposals for linking responsibility, autonomy and benefits
Early 1990s	Emphasising the big and liberalising the small	Autonomy, property rights and modern enterprises
Ongoing reforms	Privatisation, divesture and transformation of management mechanisms.	Internal corporate governance and competitive environment

*Source: Adapted from Huang et al., 1998, p.3*

Stage 1: 1978 — mid-1980s

According to Huang *et al.* (1998) and Chow (2002), the principal concerns of SOE reform in this stage were extending autonomous rights to SOEs. First, the government strengthened responsibilities of managers and workers in SOEs, and gradually replaced investment and capital subsidies to SOEs by loans from banks.

Second, the government restored trade in urban and rural areas, and promulgated the Foreign Business Law which created a more favourable environment for SOEs.

By the end of 1984, China also replaced the profits being paid to the government by a tax system on SOEs which were recognised as independent profit-seeking economic entities.

#### Stage 2: Mid-1980s — 1990

A contract responsibility system was widely implemented in 1987 (Xu and Li, 1996) whereby SOEs could keep their profits after fixed taxes. In the meantime, market pricing was gradually approved except for scarce resources, which were allocated through market pricing broadly.

#### Stage 3: The early 1990s

The principal changes in the early 1990s, noted Huang *et al.* (1998), included granting SOEs more autonomous rights through clarifying ownership and use rights, reducing SOEs' social burdens, establishing a social insurance system, and solving problems of labour redundancies in SOEs through unemployment subsidies, retraining, and self-created jobs. Furthermore, the policies of changing the SOEs into a modern

enterprise structure were initiated in this period, resulting in a massive shareholding process undertaken in the whole state sector.

#### Stage 4: Ongoing reform

The divestiture options, by fully and widely transferring ownership rights to private parties, have been gradually implemented among SOEs since 2001. This is in accordance with Huang *et al.*'s (1998) prediction that the privatisation of SOEs might be the key measure in China's ongoing reforms after the 1990s. Many of the unprofitable SOEs have been sold to private investors on the stock exchange market through public offerings (Chen, 2004)

#### 4.4 Background of the company

Shanghai Light Industry Machinery Stock Company Limited (SLIMSC), formerly Shanghai Light Industry Machinery Company (SLIMC), was founded in 1956 as one of the first-class SOEs<sup>3</sup> that dealt with the manufacture and research in light industry machinery earliest in China. The Company was established to produce a wide range of light industry machinery such as machinery to make plastic, rubber, beverage and food, daily chemical, pharmacy, printing, paperboard and packaging products.

---

<sup>3</sup> The first-class SOEs in China were mainly controlled directly by the state.

SLIMSC has experienced three stages of organisational change owing to the rapid socio-economical change taking place in China over the last more than forty years: firstly it began as a big SOE, then it was a state-controlled listed company, and finally it has become a privately-owned business firm. The major drive forcing the organisational change is the result of governmental decisions. The former general manager (GM) stated: *“It is incredible that the Company was such a lucky participant involving in every big move undertaken by the central government since the reform was carrying on in 1978. Firstly, we were selected as one of two experimental enterprises in Shanghai to implement the new tax system in 1982; secondly, the Company went public in 1991 as one of the fourteen earliest listed firms in China; and again in 2001, the Company was selected to participate in the experiment of privatising the state-controlled SOEs among the earliest groups in China.”*<sup>4</sup> However, the size of the Company and its range of productions are shrinking as a result of the organisational changes over time (see Table 4.2).

---

<sup>4</sup> All quotes in italics are from interviews and are translated from Chinese by the author.

**Table 4.2 SLIMSC and its corporate size during 1956-2004**

<b>Year</b>	<b>Subsidiaries</b>	<b>Product Lines</b>	<b>Total number of employees</b>
1956-1981	42	421	18,000
1982-1991	21	231	6,432
1992-2001	16	128	3,143
2002-2004	3	17	1,125

*Source: Adapted from the Company's document*

#### **4.5 Summary**

Since China's economic reform began, the reform of SOEs has been the central issue in society. SLIMSC, as a big SOE, has experienced vast organisational change over the last more than forty years, including business growth in the 1980s and decline in its business scale, starting from the 1990s. The next chapter presents the process of MAS change at both its social and organisational levels in SLIMSC.



(FSU). Due to the central government deciding the whole substance of the economy on a daily basis, there was no certain market for trade as well as little idea of economic benefits to be gained by individuals within the society. Furthermore, the central government decided all of the economic activities and business practices in the state-sector, including production decisions, corporate finance, employment and wages, and material allocations. After the socialist transformation, which was completed in 1956, the SOEs accounted for almost 99% of total industrial outputs (Huang *et al.*, 1998).

*At the organisational level: a workshop rather than an independent enterprise*

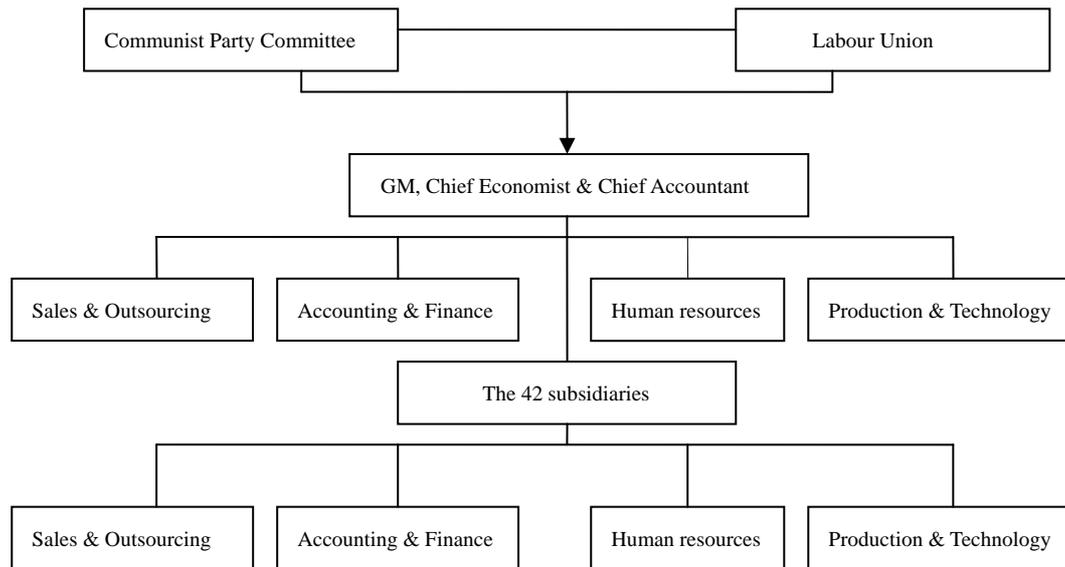
As one of the first class entities manufacturing light industry machinery under Shanghai No.1 Electrical and Machinery Bureau (SEMB)<sup>5</sup>, the compulsory goal of the Company was to accomplish a production plan set directly by the Ministry of Commerce and monitored by the SEMB every year. There were normally three sections covered in the plan: output targets, schedules of input allocations, and further governmental grants to the Company during the year, such as investment in research and development (R&D), production subsidies and investment in infrastructure and new production machinery. The sub-categories in each section normally covered items such as details of production, sources of raw materials, levels of employment, grades of wages and settlements of new finance. The Company's entire annual surplus was collected by the local government through the SEMB at each year end.

---

<sup>5</sup> The Bureau has now been restructured into a group company and listed in both Shanghai and Hong Kong Stock Exchanges.

The Company's structure was functional and represented the typical communist characteristics of many other SOEs in China during the time (see Figure 5.2)

**Figure 5.2 The Company's structure from 1956 to 1978**



*Source: Adapted from the Company's document*

The communist party committee, sitting at the top of the Company, held superior power to control and monitor the whole organisation. The paramount duty of the committee members was enforcing the political attitude and the socialistic ideology of every staff member to be in accordance with political instructions of the state. Another major task was monitoring the political performance of individual staff on a daily basis. For a certain time, the committee members could appear in any corner of the Company and interfere in the normal course of the business when the members considered it necessary. During this period, the goal, the interest and the subsequent actions taken by the committee were not in line with the Company's development

economically but rather politically. One interviewee commented: *“The party committee was a government agent who represented solely the government interest. When the government placed more emphasis on political issues before the reform, unsurprisingly the party committee would actively respond to the call.”*

The labour union of the Company also sat at the top and worked as a coordinator of the party committee. The existence of the union and its superior position was in conjunction with Marxism’s spirit, taught to all individuals in China during the period, of uniting the poor and the exploited worker class in capitalist societies to become masters in socialist societies. However, the majority of the union members, who were front line workers, were not able to understand exactly how to become a master of the organisation, and, according to some interviewees, eventually they became the assistants of the communist party committee. In addition, the union was responsible for holding formal staff ceremonies in the Company. These ceremonies were certainly financially irrelevant but celebrations of political achievement.

The Company’s senior managers were appointed by the SEMB and responsible for leading the Company to accomplish the production plan on the one hand, and reporting possible production targets in the coming year on the other. Since most of the SOEs in pre-reform China were more like workshops of the state instead of independent enterprises, the senior managers could be considered as only a group of foremen. In particular, the wages and bonuses were fixed for every individual in the Company including the senior managers. The efforts contributed by the senior

management were, however, extremely strong. One senior manager who has been working for 40 years at the company noted, *“Our soul was so-called pure and monetarily irrelevant and our contributions were evaluated on a collective-interest base. It was amazing that it did work on us. Although we earned little money, we didn’t feel any problem because the others within society came with the same situation.”* In addition, the senior managers would normally be required to participate in the meetings held by the communist party committee when further new political instructions came from the central government.

Under the senior management team, there were four functional departments: Sales and Outsourcing, Accounting and Finance, Human Resources, and Production and Technology. Since the government had treated the Company as one of its workshops, the significance of the roles of the four departments was minor. The sales GM described the situation: *“Sales and marketing was just a symbolic term at the time since we didn’t need to find ways of selling our products to others. Also, the human resources department was in a similar situation as the SEMB made the employment arrangements for the Company. Probably only the production department was doing some real jobs; however they were not concerned with issues like efficiency or quality as we are concerned with them today.”*

At the lower levels of the Company, there were 42 factories dealing with the massive production of various types of light industry machinery. Each factory had four sub-functional departments as the parent company did. The fundamental role of the

subsidiaries was to manufacture as the parent company required. The production status of each period within a year would be reported in detail through each department independently to the related department at the parent company. Then the heads of the subsidiaries would normally prepare a yearly report on the factory's performance in all areas at the year end. However, a large number of the work force in the subsidiaries were at a low educational level and not well trained. One factory head stated, *“Before the 1980s, there were only two staff who had obtained a university degree at the factory where there were more than 1500 staff in total. Under the traditional planning system, the government promised us an Iron Rice Bowl (secured employment) and we took the Big Rice Pot (equalised personal income). Therefore, we paid less attention to individual professional achievement. That certainly resulted in a low level of productivity and efficiency among the factories.”* Moreover, during the period of the Cultural Revolution<sup>6</sup> [1966-1976], many young revolutionists, who were mainly members of the union, suspended the normal course of production of the factories, and even occupied the Company's communist party committee.

*The Company's MAS during the pre-reform time: little emphasis on MAS practice*

Since the government brought all SOEs under central control, it is not surprising that the Company's accounting system was developed to fulfil an administrative role in conjunction with the tight control. Accountancy principles and practices were

---

<sup>6</sup> In 1966, Chairman Mao (1893-1976) launched the Cultural Revolution in China. The whole nation was involved in political chaos and the economy was severely damaged during these ten years.

determined by the Ministry of Finance, which established a unified accounting system at the Company. This system set up the chart of accounts with a cash-fund-based form of debit/credit double-entry bookkeeping system with two categories: fund applications and fund sources. The fund application accounts belonged to the general asset account while the fund source accounts might be comparable to the concepts of liabilities and equity in the west. In addition, the system did not analyse profit and loss of the business. *“At this stage, there was no notion of profit at the Company and the accounting system focused on the quantities of outputs in accordance to governmental budgets,”* one accounting interviewee commented.

Furthermore, there was little emphasis on management accounting practices and the major accounting activities were merely to record transactions. The former chief accountant commented: *“In this period, our major tasks for accounting were bookkeeping. However, periodic reports on costs of production were also considered important except for the time of the Great Leap Forward<sup>7</sup> [1958-1962] and the Cultural Revolution. The procedure for cost analysis was through a form of clarifying the unit costs of comparable products or non-comparable products. This process was simple but time-consuming, like a process of data collection of various inputs’ prices. Firstly, the accounting staff at the subsidiaries would record all relevant costs incurred after each production task was accomplished and put them into a report form then send it to the parent company’s accounting department. We would receive*

---

<sup>7</sup> In 1958, Chairman Mao launched the Great Leap Forward in an attempt to boost significantly the industrial outputs by maximising the abundant unproductive labour resources. However, the result of this campaign was the ruination of the nation’s economy and social orders since this campaign was hostile towards the development of technologies and education, and subsequently suspended most of the administrative, professional and educational facilities in China (Lawrence, 1997)

*hundreds of the reports during each month and be required to generalise them into the final report at the end of each month then send it to the SEMB's accounting department. The purpose of the reports was to help the central government make price decisions for industrial goods at the year end."*

### **5.3 In the early years of the reform: SLIMSC and the MAS (1978-1991)**

*At the social level: restoring the command system in the shortage economy*

In 1978, an open-door policy was launched as a result of the Third Session of the 11<sup>th</sup> Plenary of the Chinese Communist Party (Lin *et al.*, 1997) and reform with a gradualist approach was implemented under the influence of Mr. Deng Xiao Ping<sup>8</sup>.

As a response to the early reform, the recovery of China's administrative, financial and professional institutions back to the former command system was carried out at a quick pace. The Accounting Society of China, the first and only academic accountancy institute in China at the time, was reorganised in 1980 (Zhou, 1988). Furthermore, those purged "elitists" during the Cultural Revolution were released back to their earlier working positions.

During the period, the reform of the SOEs had been agreed as the first priority within all levels of the central party, and consequently a set of policies of granting more

---

<sup>8</sup> Deng Xiao Ping (1904-1997), the former president of China, was the earliest leader who launched the reform.

autonomy to SOEs was approved. Simultaneously, the government promoted a gradual liberalisation of the non-state sector and subsequently a fresh and vigorous sector emerged in the nation's economy.

However, since China had experienced two periods of civil chaos, the Great Leap Forward and the Cultural Revolution, *“the nation's economy was close to the edge of collapse and the recovery took a certain amount of time”*. As one interviewee<sup>9</sup> commented, *“We had experienced the scarcity of both consumer and industrial goods for almost 30 years since the 1960s. This situation was not improved until the early 1990s.”* In addition, the interviewee noted that there were many constraints during the early period of the reform: *“There was political scepticism about the reform and the local protectionism among the major industries setting barriers to the process of formulating a market to promote competition.”*

The first accounting law of China was established and implemented in 1985 as a result of the Ninth Session of the Standing Committee of the Sixth National People's Congress (Zhou, 1988). Under this new law, the functions, responsibilities, legal rights and legal liabilities of the Chinese accounting officers and staff were promulgated in a legal form (Accounting Law of the People's Republic of China, 1985). This law required all of the Chinese enterprises to work in a unified accounting system similar to the form mentioned earlier but with several amendments (to be detailed in the next section). The first professional accountancy body in China,

---

<sup>9</sup> This interviewee is currently the head of the economic development team in the city council.

the Chinese Institute of Certified Public Accountants (CICPA), was established and regulated by the State Council<sup>10</sup> in 1986 (Lawrence, 1997).

*At the organisational level: obtaining some autonomy, retaining a part of profit and enjoying monopoly power*

The granting of more autonomy to the SOEs resulted in three new policies being implemented at the Company in this period. They were “*the introduction of a new tax system, the implementation of a management responsibility contract system and the change of the traditional government granting budget to the repayable bank loan system*”, one senior manager noted. In addition, the Company’s accounting system was revised in 1981 in accordance with the criteria stipulated by the Ministry of Finance; there were several other amendments introduced into the system under the 1985 Accounting Law.

#### *The new tax system*

At the end of 1981, the Company was selected as one of two SOEs in Shanghai to participate in the experiment of facilitating a new tax system entitled “*the 1<sup>st</sup> Profit Delivery to Tax Payment*” (See Figure 5.3). The former chief accountant noted that, “*under this tax system, we would no longer submit the entire surplus at the year end but instead, we paid a fixed 55% income tax rate to the government. We were also required to pay the other three taxes including Sales tax, Capital Rent tax and*

---

<sup>10</sup> The State Council is the legislative body existing between the Ministries and the People's Congress in China.

*Adjustment tax. For the sales tax, it was substituted by Value-Added tax (17%) later, similar to GST in the west. For the capital rent tax, it covered the real estate taxes, the vehicle tax and the land-in-use tax. For the adjustment tax, it firstly adjusted the total amount of the income tax we paid at the year end to reach the same level as the total surplus we submitted in the last year. This part of the tax payment was entitled the floor quota of tax payment. As a result, we retained a portion of the profit at the end of 1982. The retained profit might increase if the total realised profit increased in the coming year and the state would also charge the additional income tax and adjustment tax. This part of the tax payment was entitled the above-quota of tax payment. As a highly profitable company in the period, we were granted 70% off in the adjustment tax levied on the continuous increment in the total realised profits from 1982-1990.”*

**Figure 5.3 The new tax system**

Total realised income after sales tax and capital rent taxes	● The floor quota of tax payment	55%	Income tax payment	
		45%	Adjustment tax payment	
			Retained profit	R&D, Funds Rewards & Bonus
	● The above quota of tax payment	55%	Income tax payment	
		45%	Adjustment tax payment (70% off)	
			Retained profit	R&D, Funds Rewards & Bonus

*Source: Adapted from the Company's document*

In 1983, the second Profit Delivery to Tax Payment program was widely adopted among China's SOEs, including the Company, the only difference being “*the income*

*tax rate becoming 50%”. The former chief accountant stated, “The financial significance as a result of the tax system was so impressive that we had retained profits amounted to RMB 20 million (about 4 million USD at the time) during 1982-1990.”.*

#### *The management responsibility contract system*

Right after the adoption of the second Profit Delivery to Tax Payment program, the Company was further required by the SEMB to establish a management responsibility contract system in 1984. Under this system, the SEMB signed a contract with the Company’s GM who was going to be held responsible for the Company’s total profits and losses, and, in the meantime, the GM was granted a partial control right to run the business.

According to one interviewee, the partial control right included *“recruiting new managerial staff and promoting the old well-performed staff, and determining the level of wages and bonus for subordinates, and most of all deciding how to re-invest the retained profits into new profitable projects for the Company’s long term development.”* Thus, the Company became more like an independent business entity than its former administrative form. However, the state still held the power of the last-say, in particular in recruiting senior management and determining their regular salaries.

Under this system, the heads of the subsidiaries were responsible for accomplishing the required workload determined by the parent company. At each year end, the performance of the subsidiaries was measured on the basis of the percentage of each assigned responsibility the individual factory had accomplished.

#### *The repayable bank loan system*

In 1982, another new program called the repayable bank loan system was introduced into the Company. Under this system, all investment from the state to the Company, combined with incurred interest expenses, became repayable on a legitimatised base. “*The certain pressure from this new system however became exposed by the middle of the 1990s when the Company was struggling for the profits for survival*”, noted one accounting interviewee.

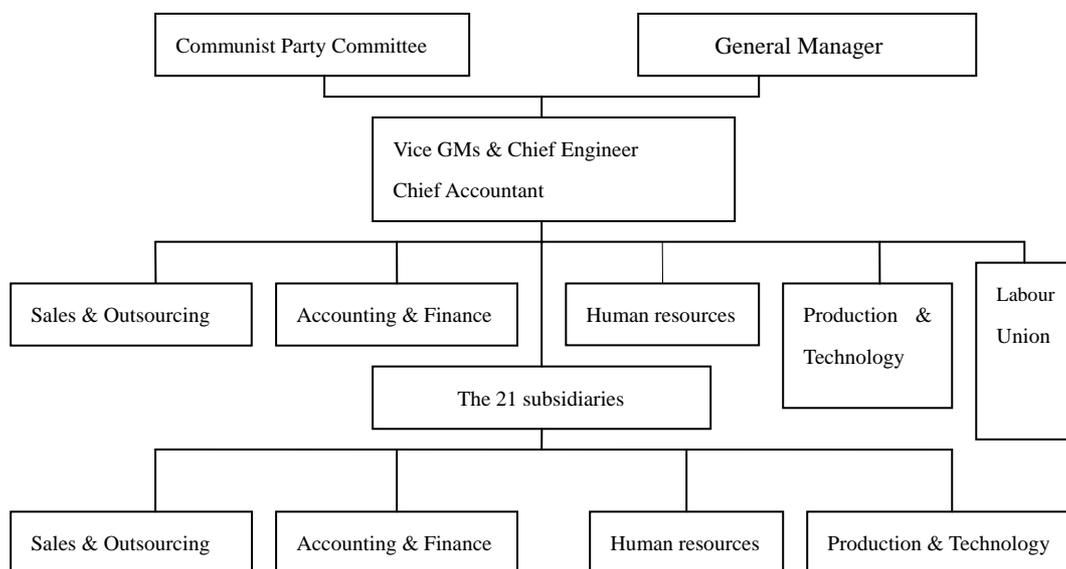
#### *The revised unified accounting system at the Company*

Comparing with the old financial accounting system before the 1980s, the former chief accountant noted that the new accounting system forced the Company to improve accounting measures and tighten the control of cost of products. In line with the requirements, several new fund accounts were introduced and established to distribute the retained profits at the Company. The system also required the Company to prepare an annual income statement and a statement of profit distribution at the year end. In addition, new three-digit code numbers relating to the different categories of accounts were introduced into the accounting system.

Furthermore, half of the Company's subsidiaries, manufacturing paper board and packaging machinery and printing machinery, were separated from the parent company. This was the idea of Mr. Zhao Ziyang<sup>11</sup> who argued that "*SOEs should become more specialised in production and independent in decision-making*". The former GM stated, "*Our product lines thus became more focused on manufacturing chemical (plastic, rubber, etc), foodstuffs and pharmacy machinery.*"

Responding to the implementation of the new systems, a restructuring program was undertaken at the Company in 1984. The organisational structure was re-constituted as follows (see Figure 5.4):

**Figure 5.4 The Company's structure during the 1980s**



*Source: Adapted from the Company's document*

<sup>11</sup> Zhao Ziyang (1918-2004), the former prime minister of China

The communist party committee still sat at the top since it represented the central party who held the last-say on the Company's business operation. However, there was a fundamental change in the function of the party committee in the business. The former party secretary stated, "*Our key duty was to coordinate the Company's senior management to fulfil their responsibilities for the quota profit and achieve more financial income so more tax income could be received by the state. It was also our duty to keep the country's capital assets safe at the Company.*" Meanwhile, political concerns were still regarded as the major issue by the committee in this period, according to the other interviewees.

As mentioned earlier in this section, the GM's managerial autonomy was further extended due to the new systems being implemented at the Company. Since the GM was the key contractor who held the fundamental responsibility for submitting the quota profit to the state in each year, inevitably the GM became the top leader with more political and economic power at the Company. According to one interviewee, the subsequent formulation of the senior management team including the two vice-GMs – Sales and Production (the production GM was also the chief engineer), and the chief accountant was recommended by the GM and appointed by the SEMB. The interviewee also commented that the role of the senior management team had been more "*recognisable and decidable*" at the company since then. Furthermore, according to many of the interviewees, this senior management team, that was striving to fulfil their responsibilities, had successfully led the Company to submit the quota profit of each year during the period. However, the goals for the Company's success

held by the senior management team were partly inspired by the corresponding increase in the personal bonuses and partly due to *“their being a group of people who held strongly the conventional socialistic ideology concerning the glory and loyalty to the collective interest and the party.”* Some of the interviewees further commented, *“Money is good but was not that good to many Chinese people in the early 1980s. Many things taught to us could be better than money. The senior management team as well as many individuals at the company thought more about their contributions to the country and less about themselves. This could be a good example against the later condition.”*

At the sub-functional departments' level, there was an increasingly significant role being played by each department. For the sales department, although the majority of the selling contracts were still arranged by the *“Ministry of Commerce”*, the sales GM stated, *“we became more motivated in finding new profitable contracts which would bring us more personal income.”* Furthermore, the period from 1981 to 1990 is viewed as the most amazing ten years by many of the interviewees. The sales GM noted, *“Due to the nation's shortage economy in particular in the 1980s, the demand for our products highly exceeded the supply. That consequently made us reach the highest levels of yearly sales and profits achievement in the Company's history. For a certain time during the period, our salesmen were treated as VIPs by external buyers on a daily basis since many of them, especially those who were from the emerging private sector, were unable to acquire the types of machinery elsewhere. This situation also applied to our certain capabilities of obtaining other scarce raw*

*materials with an internal cheaper price; we then simply put a high margin on them and sold them quite easily. However, the sources of many unhealthy tendencies among us were also emerging, such as accepting others' gifts, enjoying free meals, etc."* Meanwhile, some staff who had been previously punished for bad behaviour stated that the extremely low salary and hardly reaching a bonus had resulted in their convictions, according to one interviewee. On this aspect, one accounting interviewee added, *"The Company's average monthly wage was around RMB 120 (approximately USD 15 per month) and the reward and bonus system linked a fairly small amount of money to individual performance during this period. Besides, a large percentage of the Company's sales income was made through the state arrangements in the 1980s."*

For the human resource department, there came a new emphasis on increasing the level of education at the Company in the mid-1980s. One former senior manager stated, *"Prime Minister Zhao once pointed out that the level of technologies among China's SOEs is markedly low and the level of managerial know-how is even lower. Thus, in 1986, the human resource staff were required to resolve this low educational problem at the Company. It began in two ways: firstly, many of the managers in the middle or higher level were encouraged to take part or full-time college programs and the Company was responsible for the total fees; meanwhile, some young well-performing staff were also selected to join with the managers. Secondly, the human resource department signed many contracts with the local educational bureau to recruit numbers of new university graduates in each year."* Since then, the human

resource department has been more independent in recruiting new staff for the Company.

The production and technology department, headed by the vice-GM, became the most influential unit of the Company. Before the reform, this department emphasised solely the production quota set by the state. During the early period of the reform, producing higher quantities of outputs was becoming the most critical target of the department due to larger demand externally. Since the Company had no right to develop new factories in the 1980s (the state held this right), the only way to resolve the unsatisfied productivity problem was to increase the technological level of production. Therefore, many new production-oriented programs were undertaken through the department including, for instance, purchasing or leasing new technological patents from overseas, hiring new engineers or technical consultants and developing new methods of production. However, some interviewees pointed out that the long-term benefit of the new programs was not satisfactory and one of them stated, *“The fundamental issue was we still focused on quantity but not quality since we didn’t have the pressure to be concerned about quality in the 1980s under a protected and shortage economy. Therefore, the majority of the programs invested in through the department became absolutely worthless when competitive pressures were emerging in the early 1990s.”*

The accounting and finance department, headed by the chief accountant, began to play a significant role in improving the Company’s financial performance and enhancing

the Company's level of economic management. This could have been related to many of the financial accounting procedures and practices becoming more formal and comparable under the adoption of the new accounting law of 1985, and also to many new management accounting practices being introduced through the department to the Company (detailed in the next category).

Another change in the Company's structure was that the labour union became one of the functional departments responsible for the Company's periodic ceremonies. However, the contents of those ceremonies were changed to rewarding the good and penalising the bad on the basis of financial measures.

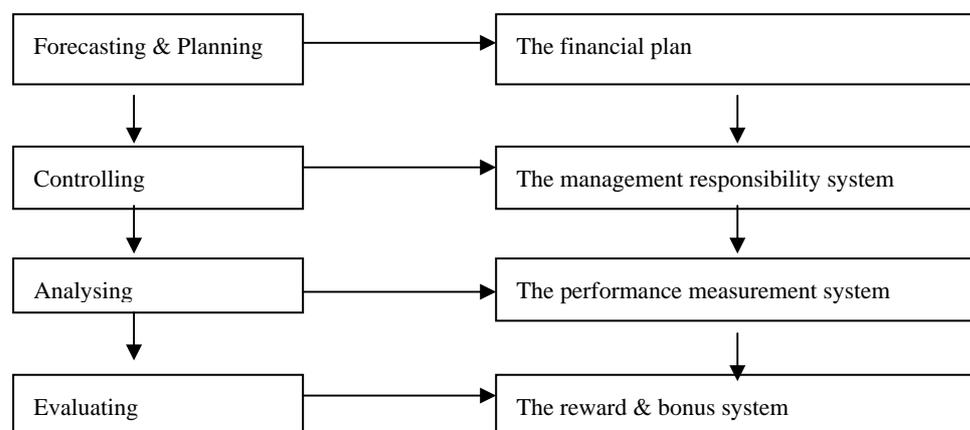
*The Company's MAS during the early years of the reform: formalised MAS with some western management accounting concepts and methods*

With the arrival of socio-economic changes at both the social and organisational levels, there was a significant expansion in the Company's managerial need for accounting information. Since many new issues, such as profitability and cost saving, were emerging during the period when China's open door policy was carried out and the new programs were further implemented in the Company, some western management accounting concepts and methods were gradually introduced into the Company's accounting system. The former chief accountant stated, "*We learned through books and magazines, from the accounting colleges where we participated in the part-time or full-time programs, through training materials we obtained from the*

*state accountancy association. Many new western management accounting practices were considered as a vital tool in coping with the Company's increasing managerial needs for economic development. Therefore, a new financial management system combining both western and Chinese characteristics was further established at the Company."*

The purpose of this financial management system, according to the former chief accountant, was to help the Company to obey the state financial law, to assist in accomplishing the duty of the quota profit, to explore the enterprise potential capabilities, to improve the level of production and technology, to reduce cost and to enhance the level of economic performance. Under this system, a formal process of forecasting, planning, controlling, analysing and evaluating was undertaken (see Figure 5.5).

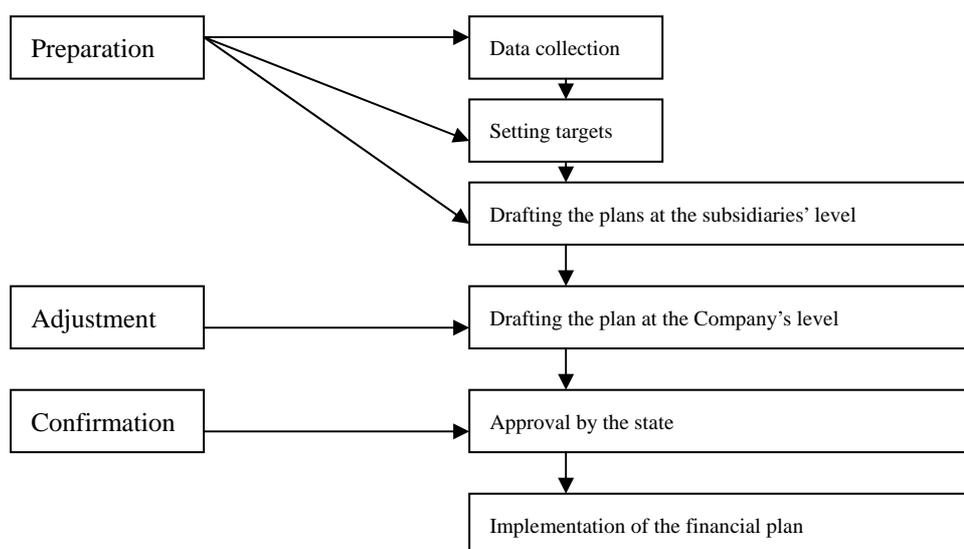
**Figure 5.5 The Company's financial management system during the 1980s**



*Source: Adapted from the Company's document*

The process was normally started in the third quarter of each financial year by preparing the next year's financial plan. There were three stages in finalising the plan: preparation, adjustment and confirmation (see Figure 5.6).

**Figure 5.6 The stages of setting up the financial plan**



*Source: Adapted from the Company's document*

There were four sub-plans in the yearly financial plan: the profit plan, the cost plan, the investment plan, and the fund plan.

#### (1) The profit plan

The profit plan consisted of short-term (less than one year), middle-term (between one year and five years) and long-term (longer than five year) plans. According to the former chief accountant, the paramount purpose of the plan was to fulfil the quota

profit responsibilities held by the Company to the state. Meanwhile, as the Company became capable of sharing the aforementioned profit portion at the year end, it was also necessary to implement the profit control strategy through the profit plan system.

The form of the profit plan was as follow (see Figure 5.7),

**Figure 5.7 The profit plan during the 1980s**

Profit Plan			
19**		Amount total: 0,000 Yuan	
Rows No.	Details of Subjects	Last year	Next year (Projected)
1	Beginning finished goods inventory		
2	Costs of goods manufactured		
3	Ending finished goods inventory		
4	Costs of goods sold		
5	Wages and bonus		
6	Administrative, selling and operating expenses		
7	Revenue from main operations		
8	Sales tax		
9	Capital rent taxes		
10	Profit from sales : 7- 4-5-6-8-9		
11	Profit margin: (10/4 *100%)		
12	Other income after sales tax		
13	Total gross profit : 10+12		
14	Income tax stipulated		
15	Adjustment tax		
16	Net profit retained		

*Source: Adapted from the Company's document*

The above profit plan indicates that a full costing method was adopted by the Company during the period. This method took all manufacturing costs (costs of

direct materials, direct labour and manufacturing overheads) and all administrative, selling and operating expenses into the general cost account.

## (2) The cost plan

Four budgets made up the cost plan: (a) budgeted unit cost of main products (comparable products and non-comparable products); (b) budgeted reduction in the cost of comparable products; (c) budgeted administrative and operating expenses at both the Company and the subsidiary levels; and (d) budgeted manufacturing overhead costs.

At the year end, the statement of the unit cost of main products as one of the Company's formal financial reports was submitted by the Company to the Ministry of Finance. The SEMB would require the Company to reduce the costs of comparable products on average 1-2% in the coming year. Also, the Company senior management would normally compare the cost statement to the cost plan to evaluate the Company's performance at the year end.

## (3) The investment plan

This plan was developed on the basis of distributing the Company's own funds (the accumulated retained profits). As mentioned earlier, most of the plans were searching for ways of enhancing the level of productivity during the period. Many

western methods were adopted in the process of formulating the investment plan, for example, *“cost-volume-profit analysis, marginal analysis, time value of money analysis and the payback period method.”* The former chief accountant stated, *“Obviously, we had adopted more western methods in this planning category as we put more concerns on re-investing our own funds which are certainly more controllable.”* Nevertheless, the goal of contributing more tax revenue to the government was considerably guiding the accounting staff and the managers in making the investment decision. The former chief accountant noted, *“Even though we had set up several other measures such as return on investment based on a net present value method, break-even rate and payback period on analysing undertaken investment projects, the key measure driving our investment decision was the tax contribution margin,”* calculated as follows:

$$\frac{(\text{Annual fixed costs incurred} + \text{Annual selling taxes from the new products sold}) * 100\%}{\text{The total amount of the investment}}$$

#### (4) The fund plan

The establishment of the fund plan, associated with the subsequent fund management, was the major task for the accounting and finance department during the period. This plan was undertaken by the department under the framework of the unified accounting system based on the accounting law in China. Each year, it was not only a legal liability for the Company to distribute and manage those funds legitimately in conjunction with the state’s criteria in the accounting law, but also a legal right of the

Company to propose a plan requiring additional funds for the onward economic development. According to the former chief accountant, the fund plan provided a closer link between the state and the Company.

There were four categories in the fund plan. They were: (a) the plan for fixed assets management and depreciation; (b) the quota current fund (including own current fund) plan; (c) the special fund plan; and (d) the monetary fund plan. The plan for fixed assets management and depreciation indicated the legal responsibilities of the Company to correctly account for, manage and protect the state's fixed assets at the Company. The quota current funds (similar to the current asset accounts) plan emphasised effectively managing the quick assets, ensuring the continuation of business operations in a normal cycle. The special fund plan related to those possible governmental grants for developing the Company's infrastructure and product lines. The monetary fund plan related to the possible cash management programs to be implemented in the coming year.

After the financial plan was approved by the state and implemented by the Company, the next process under the financial management system was controlling (see Figure 5.5). Since the Company had adopted a management responsibility contract system, the controlling process was by assigning responsibilities down to various units and levels of the Company. The former chief accountant commented, *“Under this centrally controlled financial management system, from the process of setting up the financial plan to the process of assigning the responsibilities for controlling, the*

*managerial decision was made through a top-down approach as the top management team would not be likely to negotiate with the sub-ordinates about the issues regarding how many responsibilities they could share, but would keep them informed about how many responsibilities they had to share.”*

Furthermore, the periodic internal performance reports comparing the actual results with the budgets set in the plans would be submitted by the accounting and finance department to senior management. The senior managers would then strive to resolve any unfavourable results through formal (monthly, quarterly and semi-annual) or informal meetings.

At the year end, at the staff ceremony, the senior managers would reward the subordinates according to the performance they had achieved. However, the amount of bonus was normally not linked to individual performance but in accordance with the external average industry level, even with some so-called “*official comments from above.*” The former chief accountant stated, “*This was a conventional pattern among the Chinese SOEs during the period of the early reform. The financially-based compensation system was implemented by the Company as well as the other SOEs on an extremely cautious basis. It had even been treated as explosive news at the Company when an average yearly bonus per staff was paid of up to RMB 180 (USD 30) by one of our well-performing factories in 1988. Therefore, many staff of the Company were not actually motivated by the new systems and especially individual innovative thinking was not likely to be promoted. They might however stimulate*

*dysfunctional factors, in particular managerial corruption, where people pursued financial self-interest. For example, the head of that well-performing factory was sentenced to jail in 1992 because of embezzlement he conducted during 1987-1991.”*

#### **5.4 In the period of a modernised enterprise: SLIMSC and the MAS (1991-2001)**

*At the social level: the emergence of a socialist market economy and its competition*

With the arrival of the 1990s, under the gradualism slogan, China's reform was stepping into the critical period of the transformation from a planned economy to a market economy. The idea of creating a socialist market economy emerged as a result of the 14th Central Communist Party of China's issuing the Decision on Issues Concerning the Establishment of a Socialist Market Economic Structure in 1993 (Tian, 1997). However, the fundamental impetus to forcing the nation-wide economic structural change came earlier than the 1993 decision from both the internal and the external side of the economy.

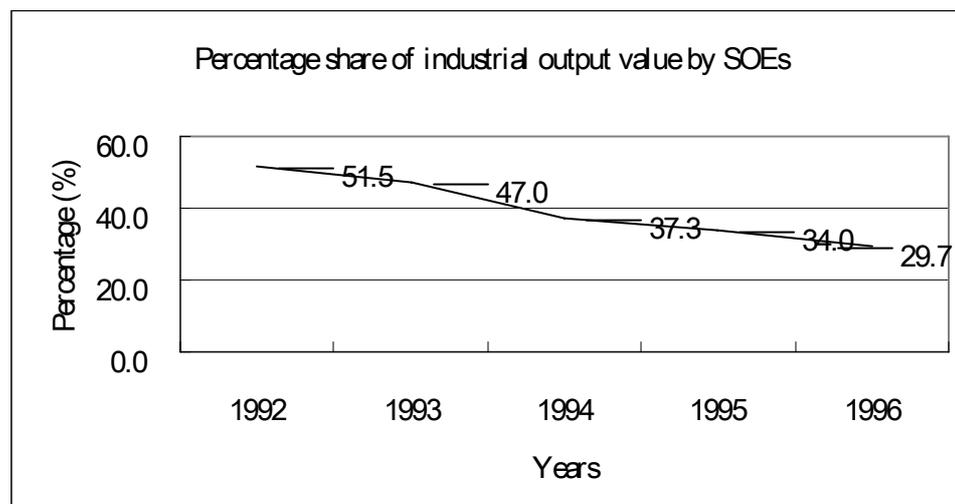
In respect to the internal competitive forces, many research studies (see e.g. Lin *et al.*, 1997; Rawski, 1997; Keidel, 1998) concluded that the sharp rise of the Chinese non-state sector in the early 1990s caused an astonishing momentum to the transition into a market economy in China. During the 1990s, it was statistically evident that not only was the non-state sector gradually dominating the nation's total industrial

output, but also the continual poor performance of the state sector was beginning to demolish the conventional command system (see Tables 5.1 and 5.2).

**Table 5.1 Industrial Outputs of State-Owned and Non-State Owned Enterprises**

	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
	(RMB 100 million)				
Gross Industrial Output Value	<b>34599</b>	<b>48402</b>	<b>70176</b>	<b>91894</b>	<b>99595</b>
State-owned Enterprises	<b>17824</b>	<b>22725</b>	<b>26201</b>	<b>31200</b>	<b>28361</b>
Non-state owned Enterprises	<b>16775</b>	<b>25677</b>	<b>43975</b>	<b>60694</b>	<b>71234</b>
-Collective owned Enterprises	<b>12135</b>	<b>16464</b>	<b>26472</b>	<b>33623</b>	<b>39232</b>
--Village	<b>3534</b>	<b>5373</b>	<b>8102</b>	<b>11932</b>	<b>11730</b>
--Township	<b>3632</b>	<b>5163</b>	<b>9658</b>	<b>11847</b>	<b>15900</b>
--Cooperative	<b>870</b>	<b>1322</b>	<b>2611</b>	<b>2134</b>	<b>3387</b>
-Individual owned Enterprises	<b>2006</b>	<b>3861</b>	<b>7982</b>	<b>11821</b>	<b>15420</b>
-Other type	<b>2688</b>	<b>5174</b>	<b>9018</b>	<b>5231</b>	<b>16582</b>

*Source: Adapted from China Statistical Yearbook, 1997, p.411*

**Figure 5.8** Percentage share of industrial output by SOEs during 1992-1996

Source: Adapted from State Statistical Bureau, 1997, p.411.

**Table 5.2** Industrial SOEs gross nominal and real losses

	1990	1991	1992	1993	1994	1995	1996
Gross nominal losses (Billion Yuan)	-35	-37	-37	-45	-48	-64	-79
Gross real losses (Billion Yuan)	-35	-35	-33	-32	-29	-33	-40

Source: Adapted from Keidel, 1998, p.81

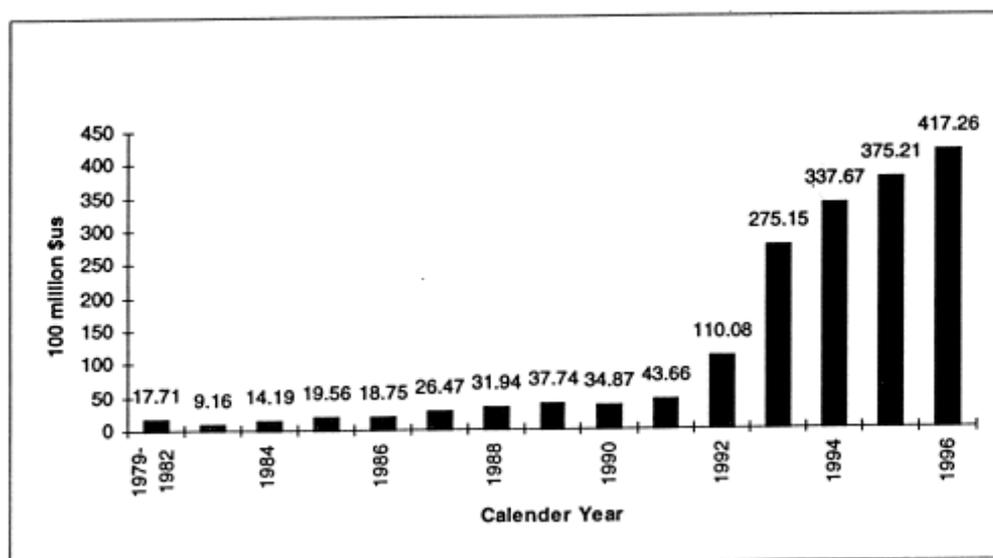
Another part of the internal force towards a market-oriented economy was the incremental implementation of a dual-track price system initiated in the late 1980s. The dual price system, like a “*semi-product of the reform in the 1980s, became institutionalised and functionalised in the 1990s,*” commented the interviewee from the city council. Furthermore, Lin *et al.* (1997, p.50-51) commented,

*[In the dual-track price system] both the planning and market price were*

*applied to the same product...The [early] reform in resource allocation and price system resulted in [the] dual-track system...the number of industrial products directly controlled by the State Planning Committee decreased from above 120 to about 60 in the period of 1979-1992; the number of materials distributed exclusively by the state dropped from 126 to 26; and the number of commodities by the Ministry of Commerce reduced from 188 to 23. The proportion of all commodities produced under the planning control and exchanged with planning price fell below 30% [in the 1990s]...*

The above quotes indicate that under the dual-track price system, the increasing numbers of both consumer and industrial goods in China over the reform period were no longer controlled and priced by the state but determined by the emerging market mechanism. This also implies that a large number of the Chinese SOEs became exposed to the market and market competition.

In respect to the external competitive forces, the major force resulted from a rapid increase in the numbers of foreign investors, who strove to be the first and feared to lag behind, rushing into China and building up large investments in local industries. According to Qiu and Chadee (2001), the total amount of foreign direct investment (FDI) in China began to increase sharply over a relatively short period in the early 1990s from an annual average of US\$ 2,000 million during 1979-1985 to an average of approximately US\$ 20,000 million a year over the 1990-1995 periods (see Figure 5.9).

**Figure 5.9 Utilised FDI in China: 1979-1996**

Source: Adapted from Qiu and Chadee, 2001, p.124.

In addition, the further implementation of the open-door policy focusing on the accession of China's economy to the international market in the 1990s (also regarded as the pre-world trade organisation (WTO) reform period) resulted in the nation's "simple average tariff" falling from "42.9% in 1992" to "15.3 % in 2001" (Adhikari and Yang, 2002, p.02). China's trade liberalisation has brought a large number of imports with higher quality and competitive prices through the various foreign agents into the market since the early 1990s (Keidel, 1998). This pattern might also be considered as another major external force to driving China's economic structural change starting from the 1990s.

Responding to the SOEs' average weakened performance and the emerging competitive forces, both internal and external, policies seeking to improve further the SOEs' autonomy and efficiency were gradually established by the state. Note that

most of the policies over the period were aiming to sustain and protect SOEs' business operations, in particular the big SOEs, and to avoid the big bang approach of the Russian reforms (Huang *et al.*, 1998).

Therefore, in the early 1990s, the state initiated an experiment of establishing a modern enterprise system at the SOEs by either carefully selecting several profitable SOEs to list in the two newly launched stock exchange markets<sup>12</sup> through an initial public offering (IPO) process, or restructuring the SOEs into limited liability corporate structures with a board of directors. This experimental scheme was further approved by the 14<sup>th</sup> Central Communist Party of China Congress in 1993 and widely piloted after the China's 15<sup>th</sup> Party Congress in 1997 (Keidel, 1998). According to Keidel (1998), by the end of the 1990s, more than 600 firms were listed, approximately 10,000 medium and large SOEs had adopted the modern enterprise system and 120 large enterprise groups were designated.

Another significant development in China over the 1990s was updating the old and flawed legal system to cope with further reform and open-market issues. According to Shi and Weisert (2002), the new laws and regulations that had emerged over the period included Provisions for the Encouragement of Foreign Investment (1987), the Certified Accountant Law (1993), Audit Law (1994), Corporation Law (1994), People's Bank of China Law (1995), Commercial Bank Law (1995), Securities Law

---

<sup>12</sup> The Shanghai and Shenzhen stock exchanges were launched in December 1990 and April 1991 respectively.

(1998), and Accounting Law (1999). The key regulatory bodies involved in the lawmaking process are the China Securities Regulatory Commission (CSRC), the State Economic and Trade Commission (SETC), the Ministry of Finance, and the People's Bank of China.

Furthermore, the Accounting Standards for Business Enterprises, which became closer to International Accounting Standards, were approved by the State Council in 1992 (Lawrence, 1997). Also, during the period, international accounting and business consulting firms were allowed into China, providing management consulting advice on setting up accounting systems in both local and foreign firms.

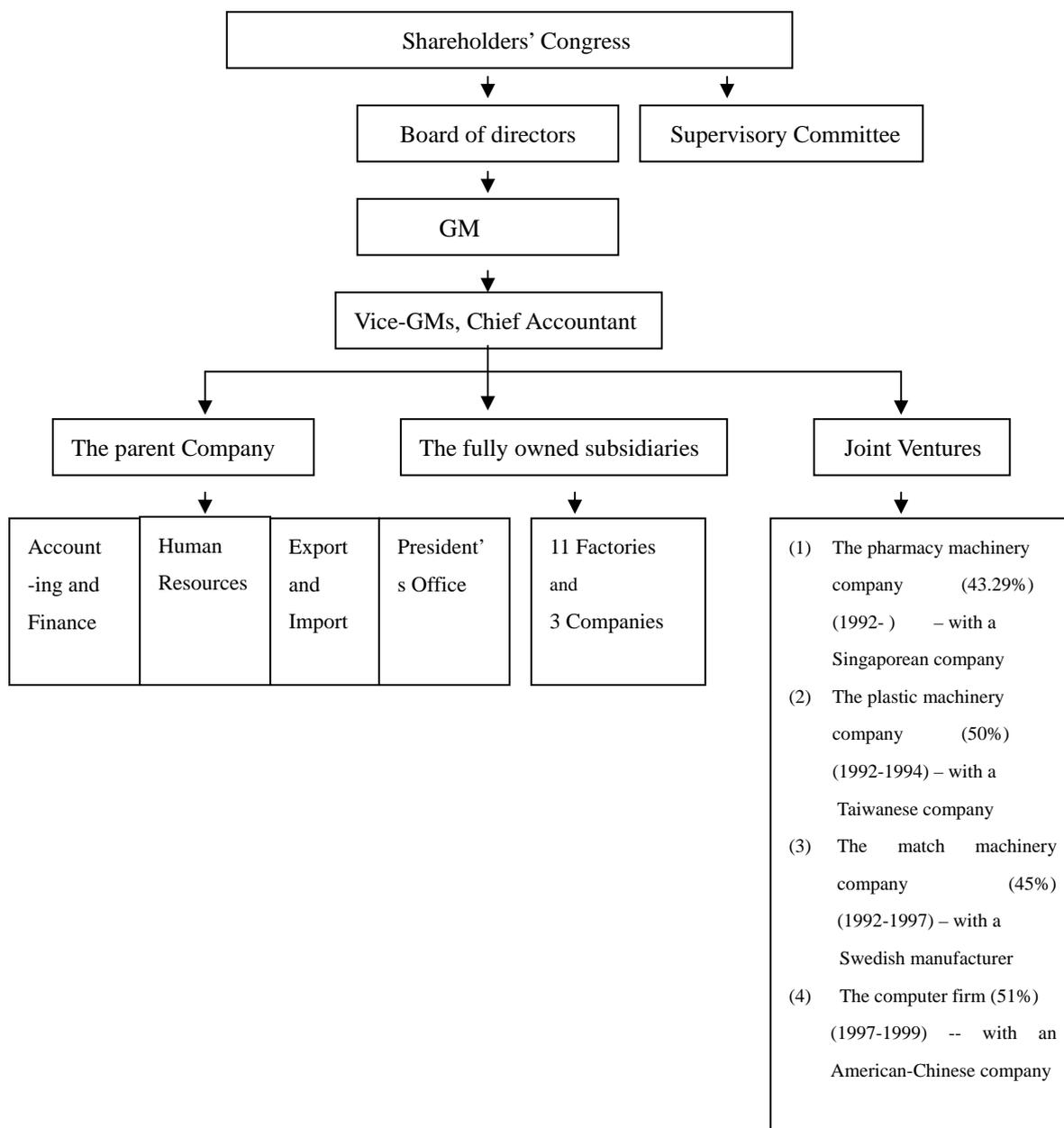
*At the organisational level: a modern market-oriented enterprise and decline in performance*

As a prominent, well-performing SOE in the 1980s, the Company was selected by the state as one of the fourteen earliest participants to go public at the end of 1990. Based on the 1992 Accounting Standards for Business Enterprises and the 1992 Draft of Corporation Law regarding Experimental Schemes on Shareholding Issues, in mid-1992 the Company was converted into a joint-stock company and listed on the Shanghai Stock Exchange. The registered capital was RMB 210,192,000 (approximately RMB 6.5 : USD 1.00 at the time), including 73,567,200 state-owned

shares accounting for 35% of the total amount, 112,624,800 society-owned legal person shares accounting for 53.58% and 24,000,000 social current stocks accounting for 11.42%. Note that 88.58% shares of the Company were concentrated in the hands of the government.

Furthermore, the Company's annual income tax rate became 33% under the new accounting standards and laws. The earlier tax system associated with the compulsory submission of the annual quota profit regime was demolished in the Company. However, the Company's coming year profit targets still required approval by the SEMB.

Parallel to the process of going public, the Company's organisational chart was also moving towards the structure of a modern corporation (see Figure 5.10). However, many interviewees pointed out that there was little fundamental change at the Company at this stage, one of them commenting, *"There was little change in terms of function, authority and accountability but only on the Company's appearance at the early stage of the modern enterprise regime. Most importantly, the Company's management system over the early 1990s remained under the conventional command system and was not market oriented."*

**Figure 5.10** The Company's structure after shareholding process

*Source: Adapted from the Company's document*

Since 88.58% of the shares were in the hands of the state, the government agencies were entitled to be in the shareholders' congress which sat at the top and held the power of last-say at the Company. However, there was a process of rapid change in the realisation of decision-making autonomy at the Company during the 1990s. According to one former senior manager, starting from the early 1990s the Company's

managerial decision-making areas were extended to, for example, production decisions, product pricing and marketing, raw material purchasing, importing and exporting, investment decisions and personnel management. Except for some critical areas, such as strategic business combinations (joint venturing or internal business restructuring) and lay-offs, the shareholders' congress was not going to interfere in the Company's normal decision-making process.

From 1992 to 1994, the chairman of the board of directors was the former GM. This "*honest and conventional senior communist party member,*" as he was regarded by some interviewees, had led the Company to benefit from the last period of the planned command system. These benefits include, noted the interviewees, "*the privileges of obtaining raw materials based on the official prices, priority in meeting foreign investors regarding the issue of joint venturing, the capability of selling products through the official channels and the opportunity of investing in new technologies with lower rate bank loans.*" After the retirement of the GM, the new chairman of the board of directors was from the SEMB and had also worked in another governmental office. During the 1990s, this chairman participated little in the formal meetings of the Company and delegated most of the control power to the senior managers.

In 1994, based on the 1994 Corporation Law regarding the commission for discipline and inspection at listed companies in China, a supervisory committee was established at the Company to protect the shareholders' interests by attempting to join various

meetings held by the board of directors. Since the government was the biggest shareholder at the Company, this committee was actually representing the government (the principal) to monitor the managers (the agent) in the business operations. The head of the labour union was appointed by the shareholders' congress as one of the three inspectors of the committee. However, the committee was "*simply a form with no function*", one interviewee commented. "*They were actually isolated from the daily business operations by the senior managers.*"

In 1995, a new GM was appointed by the board of directors as a result of a governmental arrangement. It is noted that the GM came into the position at the point in time when the Company became fully exposed to the market and was faced with dynamic competition. Many of the conventional privileges mentioned earlier were vanishing. "*As one of the generations that grew under the planned economy,*" the GM stated, "*it was hard for us to react quickly to the external rapidly changing environment in regard to the Company's management system. However, we had to find ways to deal with the pressures from the emerging competitive environment.*"

Many new strategic actions linking short-term and long-term economic improvements in the business had been taken by the senior management over the period. According to the GM, these actions included (1) efforts on marketing, R&D and quality improvement, (2) efforts towards efficient and effective business operations associated with the improvements in the accounting system and the incentive compensation system, (3) delegation of more autonomy to the subsidiaries, and (4)

efforts towards maximising the support from the state. From 1995, the annual profit budgeting process between the state and the Company became a complete bargaining process. Unlike the loyal predecessor, the then GM had kept on bargaining with the government agencies to maximise the retained profit share at the Company over the period.

Furthermore, the GM paid much more attention to the periodic financial results, investment projects and internal or external managerial advice than his predecessor had, in particular putting more emphasis on issues of profitability, quality and efficiency. Subsequently, *“the GM and the chief accountant became almost inseparable in discussing any issues regarding the business operation,”* noted one accounting interviewee. *“This close relationship was also reflected in their visits to the subsidiaries, bargains with the state and even business trips overseas.”*

The two vice-GMs and the chief accountant had been newly appointed by the board of directors in the early 1990s soon after their predecessors had retired.

Another noteworthy feature in the Company's new structure was that the secretary of the communist party committee became no longer the boss of the Company but only held a title of vice-GM. The new function of the secretary was public relations and being in charge of the labour union. Furthermore, there were increasing disputes between the GM and the secretary over the period. According to one interviewee, the disputes started with *“the GM paying less attention to discussing the Company's*

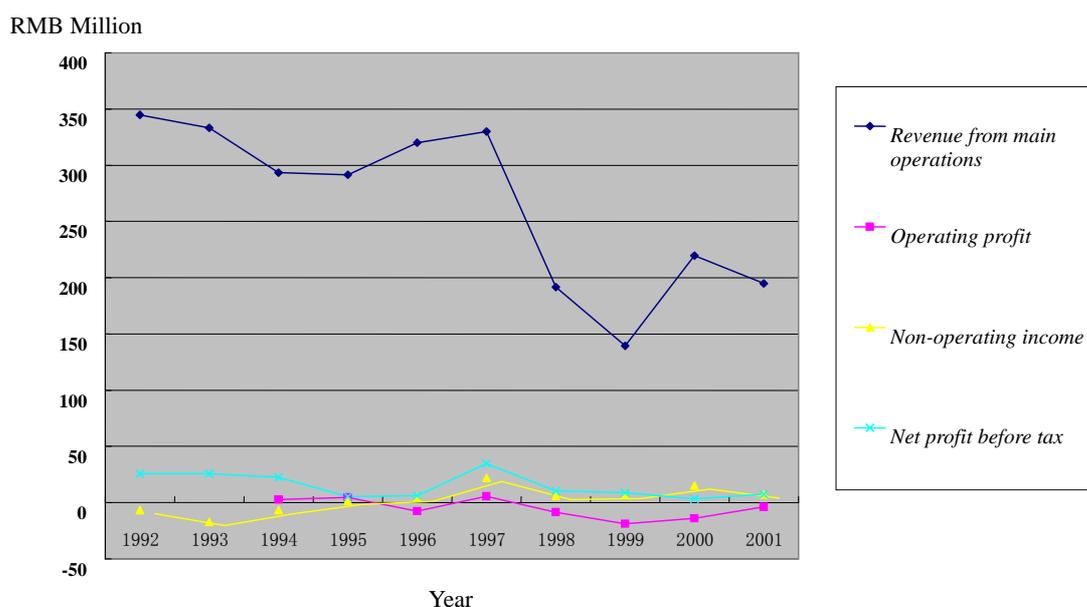
*operating issues with the secretary” and ended up with “the GM with some other senior managers ignoring the existence of the secretary at the Company”. In response, the secretary strove to hold some meetings requiring the GM’s attendance, but received refusals from the GM and some other senior managers. When the disputes reached the higher authorities for judgment, the result was however not for the secretary. The sales GM commented, “With the further acceleration of the external economic reform and the ideological shifts inside the government and individuals in society, we became more and more focused on business development economically but not politically.”*

There were also significant changes in the sub-departments’ appearance, functions and business activities after the restructuring. The former production and technology department was consolidated into the subsidiaries based on the respective industries. *“This can make the Company’s production and technological developments react more quickly to the market signals”*, noted the GM.

The former sales and outsourcing department was registered as a company with limited liability, under the parent company, to strive for new sales contracts. The sales GM commented, *“The purpose of transferring the department to become a company was fairly clear that we would be truly responsible for the sales income and our personal compensation was consequently bound tightly with the sales company’s performance.”* Although senior management designed a rather flexible income package for the salesmen through a one-on-one negotiating process at each year

beginning, the average yearly sales revenue and the average operating profits from the products were declining sharply from 1995 (see Figure 5.11). The sales GM further commented, “Since the mid 1990s, we have faced extremely tough market conditions. On the one side, we saw increasing numbers of competitors, either local or overseas, occupy the market among our focusing industries. For example, the NingBo<sup>13</sup> private manufacturers and Taiwan manufacturing enterprises occupied the plastic machinery industry in the early 1990s and became the market leader in the later 1990s. On the other side, we became no longer capable of gaining any support from the state in selling our products after the dual-track price system was functionalised from 1992-1993. The conventional sales planning meeting held by the Ministry of Commerce became a sales promotion meeting in 1993 and was totally cancelled in 1995.”

**Figure 5.11 The Company's financial performance from 1992-2001**



Source: Adapted from the Company's income statements from 1992-2001.

<sup>13</sup> NingBo is a city in the ZheJiang District which has become the plastic production center of China

In 1991, the state granted the Company an independent export and import right which was considered fairly rare among SOEs in the early 1990s. Meanwhile, after the new export and import department was established, except for a few exporting contracts made successfully with buyers from overseas, a large percentage of the department's contribution to the business was through importing. However, the average gross profit margin of the importing business was only 2-5% over the period.

For the human resource department, the major tasks over the period were resolving the re-employment problems of lay-offs, improving the quality of the workforce and assisting in establishing the new social pension and welfare system in the Company.

One former senior manager commented, *“Overstaffing was a long time internal problem among the Chinese SOEs that resulted in business low efficiency, also in the Company. As a SOE, we had to promise our staff an Iron Rice Bowl and care for them from cradle to grave. In the 1990s, the social burden status at the Company was about 3000 to 3000, which means we had 3000 working employees to take care of 3000 retirees or lay-offs. Furthermore, the number of lay-offs sharply increased after 1995 when some of our joint ventures were broken up in discord and more of our product lines were spun-off. Many aging workers who failed to pass the qualification process implemented by the human resource department were required to go back home earlier than their retirement age. Meanwhile, the issue of stability is always of concern for us; we would have to take the burden through the re-employment process or afford the redundancy subsidies as the government required.”*

Based on the 1992 Accounting Standards for Business Enterprises, the 1993 and 2000 Accounting Laws, and the 1994 Corporation Law, an auditing firm was appointed by the shareholders' congress to be responsible for preparing the external financial reports for the Company at each year end. The accounting and finance department became legally responsible for providing any accounting information required by the auditors during each audit. The external reports include an income statement, a balance sheet, a cash flow statement and a two-year performance comparison analysis report (not compulsory). The forms of these reports are similar to the reports under International Accounting Standards and have been further developed to resemble them even more. Furthermore, a new computerised accounting system was established in the department in 1995 and all of the accounting information began to be processed through it.

At the subsidiary level, after the senior management decided to delegate more autonomy to the factories in 1995, the heads of the 11 factories signed a responsibility contract each year with the parent company to operate independently with their own profits and losses. Although this could be regarded as an extension of the former responsibility contract system, the certainty of realising autonomy among the factories was improved dramatically through the new contract system. Furthermore, *“the new contract was made on a more reasonable and negotiable basis, and the new senior managers became our team members and friends, compared with the old stubborn [predecessors],”* commented one former head of the factory. *“Thus our goal became more aligned with the parent company. Also, we became more motivated since we*

*could design a better incentive compensation system by our own at the factory.”*

However, the reform of the subsidiaries did not bring the anticipated results since the level of competition far exceeded their imaginations. The sales GM commented, *“The competitive situation in the later 1990s was that the private sector provided similar quality machinery as we did but with much cheaper prices and imported machinery with higher prices but with much better quality. Especially, since 1997, the average cost of production per unit at the Company was 3 times higher than that at a private manufacturer. Consequently, we became a market loser.”*

The GM responded to the higher cost problem by making a *“two in one out”* decision at the end of 1997, noted one former vice GM who is an MBA graduate. *“Two means the purchase of the raw materials and the sale of the finished products, one means the production process; two in one out means we buy and we sell but they (external contracted private manufacturers) make.”* Although the GM received strong arguments from the other senior managers that the decision would result in business failure in the long run, the follow-up action was still taken under the GM’s powerful pressure in 1998. Inevitably, the range of product lines continued to shrink and the number of lay-offs further increased. However, it is interesting to note that the manufacturing costs did not correspondingly reduce and the total operating profits dropped into negative figures from 1998 to 2001 (see Figure 5.11). The reason, according to one accounting interviewee, was that the Company as a SOE was unable to dismiss the lay-offs as easily as a private business could do and consequently had

to make redundancy payments similar to the annual wages for those lay-offs between 1998 and 2000. Therefore, the total cost of goods sold actually increased.

From 1991 to 1993, three joint ventures were established at the Company through the endeavours of the former GM and the higher authorities. However, except for the pharmacy machinery company with a controlling share of 43.29% (see Figure 5.10), jointly owned by a Singapore and a Taiwanese corporation, which has kept running so far, the other two joint ventures collapsed in 1994 and 1997 respectively. The former chief accountant noted, *“For the plastic machinery company, the Taiwanese came to us in 1992 since we just bought an advanced technology patent from overseas in 1991 with a large amount of spending. When the value of the patent became low in terms of the new technology outstanding in 1994, the Taiwanese issued the dismissal of the joint venture in 1995. We lost USD 1.4 million from this joint venture. For the match machinery company, the Swedish came to us in 1991 since the competition of match consuming markets in Europe has been extremely dynamic. Although the joint venture had brought a large amount of cost savings to the foreign partners during the years, they were unable to accept the Chinese business models, in particular the Chinese managers’ low efficiency. Consequently, the Swedish bought out all our share in 1997.”*

Moreover, the joint venture producing scanners, established in 1997, collapsed at the end of 1999 bringing a loss of around USD 2.1 million to the Company. The reason for the collapse was that the foreign owners conducted fraud, misappropriating the

joint funds.

During the 1990s, the news in both the light industry magazines and the websites had, however, presented a fairly positive image of the Company. It was one of the Top 500 Chinese Biggest Enterprises in 1993 and ranked 144<sup>th</sup> of the 300 biggest stock enterprises in China. Fifty products of the Company were awarded Shanghai tech-progress medals or excellent new-product medals, including two national silver quality medals and one national golden quality medal. In 1998, the Company with its subsidiaries also passed the ISO9001:9002 Quality Management System Appraisal. However, all of these awards and improvements were merely on their appearance to the public and rarely reflected the actual economic situation inside the Company. One interviewee commented, *“The majority of the quality improvements or the awards had not brought us a happy result. The fact was there were fewer customers interested in buying our products and more spin-offs of our low profitable product lines”*.

Based on the Company’s income statements from 1992 to 2001 released to the public (see Figure 5.11), the Company’s revenue from main operations had been decreasing dramatically since 1992 from annual RMB 350 million to average annual RMB 160 million between 1997 and 2001. In particular, the operating profits had become a negative figure since 1998. However, the net profit before tax from 1992 to 2001 had been kept at an average amount of RMB 20 million. According to one accounting interviewee, the Company had kept on selling its land to bring the

business a pure income (recorded as the non-operating income) in each year since 1996.<sup>14</sup>

*The Company's MAS during modernisation of enterprises: the modernisation of the MAS with a quality management approach*

As mentioned earlier, the emergence of the external competitive environment and the fall of the conventional command system over the 1990s had significantly impacted the Company's financial performance and business sustainability, with the economic future of the Company becoming unpredictable. With the modern enterprise regimes implemented at the Company, the formalisation of the accounting procedures and rules under the new corporate structure became a first priority in coping with the rapid changes in both the external and internal environment. Meanwhile, with more emphasis being placed by senior management on profitability, quality and efficiency issues, a new quality management system focusing on more non-financial measures was established in 1996 to supplement the conventional financial-based MAS at the Company. Furthermore, the decentralisation of some functional departments (sales and production) and the delegation of more autonomy to the subsidiaries also brought changes in the budgeting control process as a part of the MAS improvements over the period.

---

<sup>14</sup> In China, due to historical reasons, most of the SOEs have obtained free land in business from the state (People's Daily, 1993).

*The formalisation of the accounting procedures and rules under the new corporate structure*

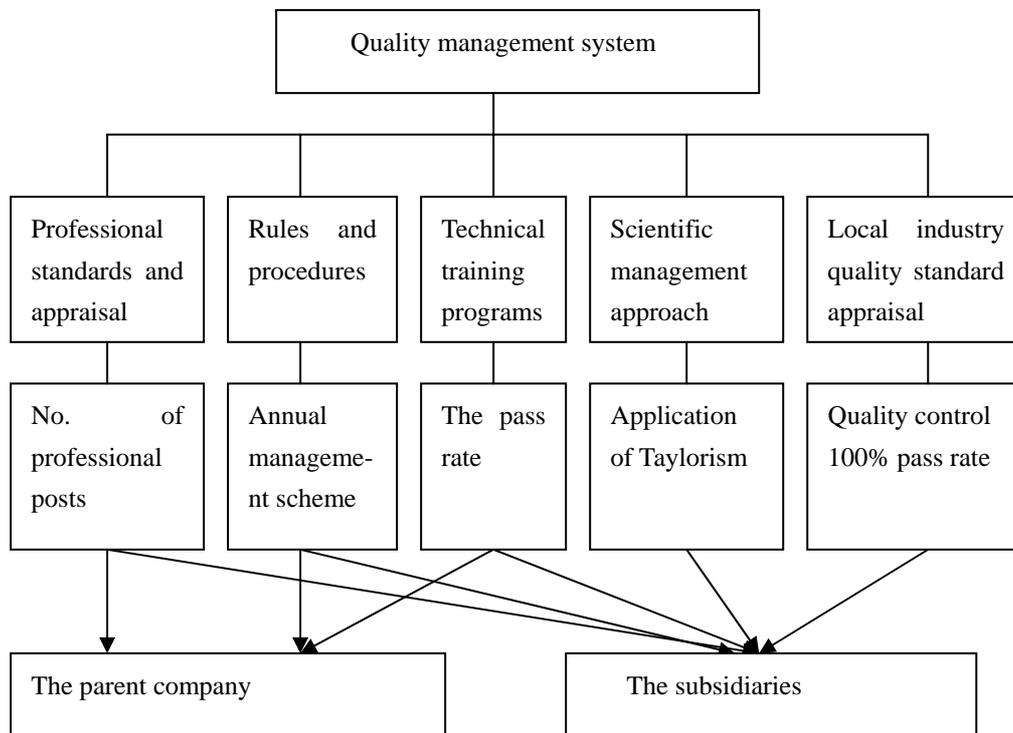
Since the new accounting standards and laws and the new company laws had been established or updated significantly by the state during the 1990s on a more internationally comparable basis, the process of formalising the accounting procedures and rules under the new corporate structure had been undertaken on a consistent basis after the Company went public. The ongoing formalisation process over the period was also supported by the external professions who mainly came from the appointed auditing firm and the certified accountant institute. Furthermore, the communication between the Company and the external professional institutions regarding the financial and business operation issues had been becoming increasingly frequent. *“The reform has brought us a closer tie with the external professional parties especially when the competitive environment becomes more dynamic,”* commented the former chief accountant.

The draft of the annual accounting management scheme was submitted by the accounting and finance department to the board of directors at the beginning of each year. It covered: (1) the basic accounting management rules and procedures at the Company; (2) the accounting procedures and rules and methods of keeping accounting files in the computerised accounting system; (3) the internal auditing system and its functions; (4) the extensive accounting rules and procedures regarding management of various accounts; (5) the responsibility accounting rules and

procedures at the parent company and its subsidiaries; and (6) the sanction system at the Company. After the endorsement of the chairman of the board of directors, the new rules and procedures became effective in the current year. *“The formalisation process of the accounting management scheme is also a rationalised process and a modernised process. This process makes the business operation become more effective and legally enforceable,”* commented the former chief accountant.

#### *The establishment of the new quality management system and its failure*

In 1993, faced with the situation that the conventional government support was coming to an end, the Company’s traditional massive quota production methods were replaced by the new quality-focused management system. The system was designed through cooperation between the senior accountant staff and several external professional consultants. *“The system,”* noted accounting interviewees, *“not only attempted to focus on quality and efficiency issues at the production level, but also headed towards an improvement in business operations at the managerial levels”* (see Figure 5.12).

**Figure 5.12** The quality management system at the Company during the 1990s

*Source: Adapted from the Company's document*

The quality management system, supplementary to the conventional responsibility contract system and controls, introduced more non-financial measures into the Company's MAS. This system, firstly, was promoting an organisation-wide process of professionalisations. The individuals at various levels of the Company were encouraged to obtain relevant professional posts through the examinations set by the related professional institutes in different industries. Even the secretary of the communist party committee and the head of the labour union had been granted a title of "senior political affairs profession" from the authorised institute. Secondly, the rules and procedures were defined in the aforementioned annual management scheme and were required to be obeyed on a daily basis. Thirdly, increasing numbers of technical training programs were launched, mainly at the operating and production

level. Also, the workers would have to participate in the periodic technical qualification process prepared by the human resources department. Fourthly, a scientific management approach based on “*Taylorism*” was adopted among the subsidiaries to improve production efficiency. The vice-GM commented, “*I learned Taylorism from my MBA study. Although this old model had lost its fashion a long time ago in the west, it however could be considered a useful tool here since most of our workers who were aging labourers had low motivation and lagged behind the competitive technical ranks. Especially the fact was we could not simply dismiss them but had to maintain as many as we could in terms of a certain social responsibility we had had. Therefore, the scientific approach might help to improve the level of efficiency in the first place by providing the workers a proper working method in accordance with the external competitive technical standards and motivate them to become more productive.*” Lastly, the system required all the products made by the subsidiaries to pass the strict local quality standard appraisal.

The tasks of monitoring and evaluation were undertaken by the Company’s internal audit team formed by a group of senior management accounting staff. However, one of the team members noted that there had been many conflicts from the implementation of the quality management system, in particular: (1) the conflict between the goal of efficiency and the concern of stability (the overstaffing issue); (2) the conflict between the goal of organisation-wide modernisation and the tendency to retain the old ways of doing things; and (3) the increasing conflicts of interest between the government and the managers or the managers and the subordinates,

resulting in goal incongruence. Therefore, the level of effectiveness of implementing the quality management system over the period was low. Moreover, the majority of the quality measures at the operating and production levels had been gradually abandoned after the GM declared the two-in-one-out strategic direction in 1998.

#### *The changes in budgeting controls and personal income*

The decentralisation of some functional departments and the delegation of more autonomy to the subsidiaries had resulted in the Company's budgeting becoming a bottom-up process. *"The rapid increase in the level of competition and the dramatic reduction in the amount of support from the government had resulted in a higher and higher degree of difficulty in setting budgets over the period,"* commented the former chief accountant. *"Our budgeting process was unable to keep the traditional top-down mode with the strict quota style. Senior management had been patiently participating in the budgeting meetings with the subordinates to discuss the issue of profitability in each business into the coming year. The follow-up control mechanisms had also been developed on the basis of linking the financial performance evaluations to an improved reward and bonus system."* In 2000, the average annual personal income (salary plus bonus) became approximately USD 5,000 per year at the parent company, USD 3,500 per year at the fully-owned subsidiaries and USD 6,000 per year at the joint venture. This is about a 14 times increase from the level of 1992 at the Company.

### **5.5 After privatisation: SLIMSC and the MAS (2002- )**

#### *At the social level: the post-WTO era*

With the arrival of the 21<sup>st</sup> century, one of the greatest milestones of China's economic reform was the accession of China to the WTO in November 2001. This significant event has not only further given a strong impetus to the acceleration of China's economic reform but also impacted significantly on the nation's ongoing changes in economic, legal, technological and political systems and even in social values in relationship to international rules and values (Green, 2003).

A recent World Bank report (2003, p.3), published in the Development Research Center of the State Council of China, outlines four key measures currently characterising China's economic development in the post-WTO period: (1) expansion of markets for exports; (2) increase in supply of exports into others' markets; (3) competition in third markets; and (4) expansion of investment in China and, potentially, outward foreign investment from China. This report also confirms that the level of competition in China's internal market is dynamic.

Meanwhile, another significant movement in China's economy is the policy change on SOEs' ongoing reform. During the 1990s, the policymakers mainly focused on maintaining the emphasis on the big SOEs and gradually liberalising the small ones (Huang *et al.*, 1998). However, the continuously worsening performance of the

state-sector created a heavier burden for the state through a large numbers of subsidies (Keidel, 1998). At the 1997 National People's Congress, China's leaders reaffirmed the state's ongoing commitment to the privatisation of SOEs as the major task of ongoing economic restructuring (Chow *et al.*, 2001). Consequently, the reform policies regarding the privatisation of some big and unprofitable SOEs have been gradually established since 2000 and so far have been implemented on an experimental basis (Chen, 2004).

*At the organisation level: privatisation and massive spin-offs*

Starting from the middle of 2001, a group of people from a big private company in Beijing (the capital city of China), guided by some local government officers, came to the Company to discuss the possibility of acquiring the Company's conventional non-current stocks held by the government. In early 2002, after a considerable number of negotiation meetings had been held between the private investors and the government, the Company was finally sold through the agreed devolution of 53.58% of the shares (see Table 5.3) from the hands of governmental agencies to the private owners.

**Table 5.3 The Company's equity structure after the privatisation**

<b>The private owners</b>	<b>The government</b>	<b>The social current stock holders (Common individuals)</b>
53.58%	35%	11.42%

*Source: Adapted from the Company's document*

As the above table indicates, 65% of the Company's total shares are in the hands of private stock holders since the acquisition. Although the government retains 35% of the total shares of the Company, an agreement was also signed between the private owners and the government stating that the government will not be involved in any ongoing business operations of the Company and only holds the right of sharing 35% of the annual residual income of the Company. *“This is an experimental method introduced in the newly established policy regarding the reform of the property rights of a Chinese SOE which prepares for privatisation,”* noted the former chief accountant. *“Under this policy an absolute control right of the private owners of the Company is promised through the legal agreement.”* However, the author was not able to obtain further details of the agreement concerning the property rights issues for confidentiality reasons.

After privatisation, the organisational chart retains its former modernised structure but the nature of authorities, functions and accountabilities under the structure is significantly redefined at the Company.

Since the government was no longer the boss of the Company, the former senior management team formed by the government was dismissed immediately after privatisation. The departing senior managers included the former chairman of the board of directors, the former GM, the secretary of the communist party committee, the head of the labour union and one vice-GM. Also, there has been no political department in the Company since then. However, the sales GM and the chief accountant were retained since the private owners had strongly urged them to stay. It is interesting to note that even after the chief accountant resigned the job a year later, the Company's employers still kept her position as part-time. *"They do so simply according to the person's professional value to the business,"* commented one interviewee. *"This is the basic principle constituted in the current business environment concerning employment issues."*

Using the professional-value-based principle mentioned above, a massive downsizing program was carried out at the Company in 2002. This program was implemented based on a competence report started three months before by an internal employee qualification appraisal team sent from the Beijing parent company. After the downsizing, the total number of employees was reduced from about 3000 to about 1000. For the redundant staff, the Company adopted the approach of *"one-time-contract-out,"* noted the former chief accountant. *"This approach is implemented under the revised Labour Act 1993 regarding the solution to the SOE lay-offs by establishing a legal contract between the employer and the redundant employees with an agreed amount of redundancy pay in accordance with the*

*standardised pay level set by law. This approach has been widely implemented in the non-state sector since the early 1990s but it is a fairly recent attempt in the state sector. Since the mobility of the current labour market is quite free, the redundant staff after the downsizing are quite capable of finding a new job. However, it is a critical change that the re-employment issue is no longer the responsibility of the Company's private employers after the one-time-contract-out was made.*" In addition, there are significant reductions in the amount of payment to the retirees shared by the Company since the nation's social welfare system has been further developed dramatically, according to one interviewee.

Since 2002, the new chairman of the board of directors, who is also the current chief executive officer (CEO) of the Company, comes from the privately-owned trading company which also holds the majority of the shares of the parent company in Beijing. According to many of the interviewees, the chairman/CEO has been bringing a hands-on leadership style into the Company. *"She would pay attention to every single dollar amount of payment or income in the business and the concerns about profitability and efficiency have reached the strictest level in the Company's history,"* commented the interviewees.

Among the senior management team, the current chief financial officer (CFO), who is a young professional (34 years old) with a doctoral degree, was head-hunted by the Company in mid-2002. As soon as the CFO came to the position, an internal competitiveness investigation was carried out by the CFO and another newly

appointed senior manager to determine exactly the competitive situation of the Company, in particular the competitive capabilities of the sub-factories. The result of the investigation, according to one accounting interviewee, alerted the Company to restructure promptly the business product lines, since most of them were posing a big threat to the business's ongoing sustainability in the long run. As a consequence, 10 factories were forced to spin-off from 2002 to 2003, resulted in only one fully-owned manufacturing plant remaining. Meanwhile, the Company recognises the long-term value of closer cooperation with the foreign partner of the Pharmacy joint venture company. In 2003, the Company invested a huge amount of money in developing new products with the foreign partners. This investment, according to one interviewee, might bring a five-year sustainable increase in income to the joint venture.

Parallel to the massive spin-offs, a real estate company was registered under the Company in late 2002 to deal with the land developing business and real estate management business. Furthermore, the exporting business became another major emphasis of the Company in coping with the current nation-wide export-orientated economy. So far, the scope of the exporting business has been extended dramatically to various types of industrial and consumer products. *“The dynamic business environment is still there but the way of managing business is changing after the privatisation,”* commented the sales GM. *“The new business norm brought by the private owners is simply, ‘we do this as we think we might gain from this, and the decisions we made are based on cost vs. benefit evaluations of each case’. The norm*

*also applies to every individual at the Company since they consider they become better-off from the amount of work they contribute.”*

*The current MAS at the Company: the establishment of a computer-based information system*

After privatisation, many of the conventional formalised accounting controls regarding accounting rules and procedures and the financial planning process have been retained at the Company under the modernised corporate structure. However, there are at least two fundamental differences from the conventional practices. These are the level of effectiveness in setting up the control mechanisms in the business operation and the degree of competitive adaptability to the external dynamics.

Since 2002, the chairman/CEO has divided the business into profit centers and non-profit centers. Among the non-profit centers, which are mainly administrative, accounting & finance and rear-servicing departments, any dollar amount of spending is controlled tightly under two methods: (1) the compliance to budgets; and (2) the one-signature approach. The compliance to budgets requires that every dollar amount of spending can only be incurred as the budgets require. Overrunning the budget can only be authorised by the chairman/CEO. According to one interviewee, the individual monthly salary at the non-profit centers is fixed but much higher than for the staff from the profit centers; in addition, the bonus for the non-profit staff is

determined to be double or triple the monthly pay payable at the year end. For the profit centers, the control mechanisms are developed through the budget-based performance evaluation system and especially based on a “*new reward philosophy*”, the sales GM stated. “*The current reward and bonus system strongly promotes individual staff, especially salesmen, contributing more as the Company will recognise their achievement in a timely manner and compensate them accordingly. Under the reward system, a quarterly sales champion will be announced at the Company on a regular basis.*” Although the Company adopts a confidentiality policy regarding the amounts of individual yearly salaries, the personal rewards in either dollar amount or other forms have been announced throughout the Company since 2003.

In mid-2002, the Company established an organisation-wide computer-based management information system. The paramount goals of the system, according to one interviewee, are creating interactive linkages with the external environment on the one hand, and strengthening the internal level of communication and cooperation on the other.

Under this system, there is a website of the Company for external individuals to read about the Company’s present business operations and ongoing plans. Also, there are three main linkages supported by the system, between the firm and customer, supplier and business partner sites. The customer site, with the associated customer management team, focuses on recognising customer needs and improving customer

responsiveness. The team members work closely with the profit center staff through meetings and reports. The supplier site creates linkages with various external suppliers covering, for example, raw materials providers, contracted service firms and even job hunting firms. The business partner site links to all allied business firms including the subsidiaries of the Company. In particular, many relevant macro-economic data, such as new national policies, flow through the business partner channel from an allied data-collection company in Beijing to the Company.

For internal communication and cooperation, the system encourages all individuals at the various level of the parent company to share business information on a daily basis. Furthermore, a data processing team at the Company is responsible for frequently inputting comprehensive information into the internal communication system. This includes the Company's strategic goals, the approved short-term and long-term business plans, the periodic financial performance comparison reports associated with corresponding extensive financial ratio analysis, the schedules of the current formal and informal meetings with possible subjects and the periodic results of highly performing staff and their rewards.

According to one interviewee, in an organisation-wide meeting held in 2002, the CFO, who was the major proponent of establishing the system, pointed out that implementing the new management information system at the Company was important to bring the notion of strategic management into the business. The CFO argued that the earlier management accounting practices at the Company were mainly

non-strategic in nature, resulting in most of the managerial actions taken being passive and strategically slow, whereas effecting business success in the present dynamic environment requires strategically proactive actions to be taken by the Company. Also, the CFO criticised the extremely low level of information sharing among the corporate staff under the past modernised business structure, saying that it had resulted in the Company's low efficiency and goal incongruence.

So far, the implementation of the computer-based management information system and the new reward system has received the anticipated success at the Company. This can be seen both in the latest financial results of the Company, with a rapid increase in the revenue amounted to RMB 517 million and RMB 737 million in 2003 and 2004 respectively, although the operating profits were still negative figures in 2003 and 2004, and in the current staff's confidence about the future of the business, revealed in the interviewees' personal statements.

## **5.5 Summary**

Following the model of dualism in Amat *et al.* (1994), this chapter has provided a comprehensive analysis of the MAS change undertaken in SLIMSC from 1956 to 2004. In the four stages during this period, many relevant historical events emerging at both the social and organisational levels were detailed, tracing cause-and-effect linkages to the new MAS in SLIMSC in the four periods. The findings indicate that although the majority of the MAS change in SLIMSC was in response to the

Company's adaption to external changes, there were also internal effects on the MAS change purposefully initiated by senior management, acting in a process of "planned innovation" (Czarniawska and Joerges, 1996, p.14), for example, the establishment of a computer-based management information system in SLIMSC recently. As argued by Amat *et al.* (1994), these double-sided effects on MAS change should be taken into account when explaining the process of design, implementation and change of MAS. The next chapter will discuss the double-sidedness of the MAS change in SLIMSC (see Chapter 6.2.3), and identify the possible key explanatory indicators, at both the social and organisational levels, affecting the progressive formalisation of the MAS in SLIMSC over the period studied. Also, the conclusion will produce a new generalised model of the contextual aspects of MAS change as seen in SLIMSC.

## **Chapter 6: Discussion and conclusion**

### **6.1 Introduction**

This chapter will discuss the possible effect of changing factors at social and organisational levels on the MAS change in SLIMSC from 1956 to 2004. Three outer, social factors (socio-economic condition, competition and socio-culture) and three inner, organisational ones (autonomy, profitability and authority) have greatly impacted on the progressive formalisation of the MAS in SLIMSC during the period studied. Also, the internal effects on the MAS change differ from the external ones, mostly reflecting SLIMSC's increasingly specialised managers having exercised a set of proactive or intentional changes on the MAS within the corporate boundary. In addition, this study identifies differences between SLIMSC and DERESA (the company studied by Amat *et al.*, 1994), because of different political environments, different changes in business scale, different amounts of autonomy obtained by the companies and different focuses on their own economic development.

### **6.2 The case of SLIMSC**

Amat *et al.*'s (1994) model of dualism arose from an analysis of MAS change based on a process view, linking the interactions of social and organisational dynamics.

The model can be used in this case to show why and how the processes of

introduction, design and implementation of new MAS have been taking place at SLIMSC over the last more than forty years. In accordance with Scapens and Roberts' (1993) viewpoint, many historical contingencies that emerged within and outside SLIMSC have been reported in the case study, presenting cause-and-effect contextual linkages to the existence of or change in the forms that the MAS took in the four different periods. This case also reveals that some interrelated factors at both the social and organisational levels have impacted significantly on the progressive formalisation of the MAS in SLIMSC from 1956 to 2004.

### **6.2.1 Key factors at the social level**

The key explanatory indicator at the social level is the gradual transformation of China's economy from a closed, socialistic, planned economy to an open market-orientated economy. This socio-economic change partly explains why SLIMSC has undertaken organisational change processes as well as why the MAS has changed as it has over the period.

Parallel to the nation-wide economic transformation, the notion of competition emerged in Chinese society, the level of competition becoming more and more dynamic owing to increasing pressures both locally and overseas as accelerations of economic reform took place. As SLIMSC had been striving to raise its level of competitiveness, reactively, since the mid-1990s, at the same time and as a

consequence many new management accounting techniques and control mechanisms have been introduced and implemented on an increasingly formalised basis.

The process of socio-cultural shift among individuals in Chinese society during the period is another powerful indicator. Tian (1997) argued that Chinese economic liberalisation has not only brought the people more economic freedom and individual independence, but also greatly changed the people's values, thinking and behaviour. He further noted that during the reform period, Chinese people "have gradually come to realise that self-interest is an inevitable part of human behaviour... [and] they work hard and effectively because they work for themselves" (p.231). This is exactly what has happened among SLIMSC people over the last more than forty years. The findings show that there are significant differences in societal attitudes between the old and new upper authorities (chairmen of the board of directors, GMs) and among the subordinates toward the Company's development, business success, managerial achievement, authority, class structure, self-recognition, personal compensations, etc. In particular, the current SLIMSC people are concerned mostly about self-beneficial consequences and favour little the collective value initiated in the former closed society. This process of socio-cultural change among SLIMSC people in the period studied explicitly indicates a movement from collective interest to individualistic interest. This is also in accordance with Green's (2003) view, arguing that the socio-cultural shift in China's society is a process of change from the traditional societal values to international ones. Consequently, SLIMSC managers, accountants

and other individuals who held a different way of thinking and subsequently adopted a different way of doing things were, in turn, designing and implementing different forms of MAS and control mechanisms (e.g. the increasingly budget-orientated performance measurement and compensation systems in SLIMSC since the 1980s) to cope with the changing needs, thinking and behaviour (Gray, 1988).

However, the findings are limited to SLIMSC alone, whereas determination of the impact of such a comprehensive social factor on MAS change in China requires a wider range of evidence and in different types of organisation. This study argues that the impact of the socio-cultural shift in China on the MAS change in SLIMSC does exist and there is scope for future studies to extend the findings.

The findings also reveal that there were other external factors impacting on the MAS change at some particular points in time. For instance, the introduction of information technology during the mid-1990s in China resulted in the establishment of the Company's computer-based accounting system as well as the management information system. Also, the establishment of stock markets in China during 1991-1992 impacted on the Company's corporate structure as well as the financial accounting system. These other external factors could be compiled into a list of relevant external contingencies (Haldma and Lääts, 2002) adding to the contingency theory literature, which does not view the nature of social, organisational and MAS change as a

continually correlated process (Soin *et al.*, 2002). However, this is beyond the scope of this study.

### **6.2.2 Key factors at the organisational level**

Changing factors at the organisational level are summarised in Table 6.1. The key explanatory indicator at the organisational level is the increase in SLIMSC's autonomy. Over the period from 1956 to 2004, the Company had transformed from a totally government controlled workshop to a solely independent economic entity. The change in SLIMSC's autonomy partly explains why the Company has gradually placed stronger emphasis on its own economic development, resulting in a continuous extension in demand for management accounting information as well as a progressive formalisation of the MAS. In accordance with the change, SLIMSC as a whole has moved away from "closed" operations to "open" ones recently (Bartol *et al.*, 2001, p.51), interacting more with the external environment.

Parallel to the organisational changes, the notion of profitability emerged in SLIMSC due to the implementation of the new profit-retention program during the 1980s; subsequently the issue of profitability became the central concern in SLIMSC in order to achieve the goals of business survival and competitive success. Most importantly, the focus on profitability explains why SLIMSC managers, responding to external pressures, increasingly exercised a set of proactive actions taken since the 1980s (e.g.

the profit/investment plans in the 1980s, the strategic actions taken linking short-term and long-term economic improvements in the 1990s, the internal competitiveness project in mid-2002, etc), and consequently established and implemented a more effective MAS over the period (Gray and Roberts, 1991; Scapens and Roberts, 1993; Amat *et al.*, 1994).

**Table 6.1 The changing organisational context**

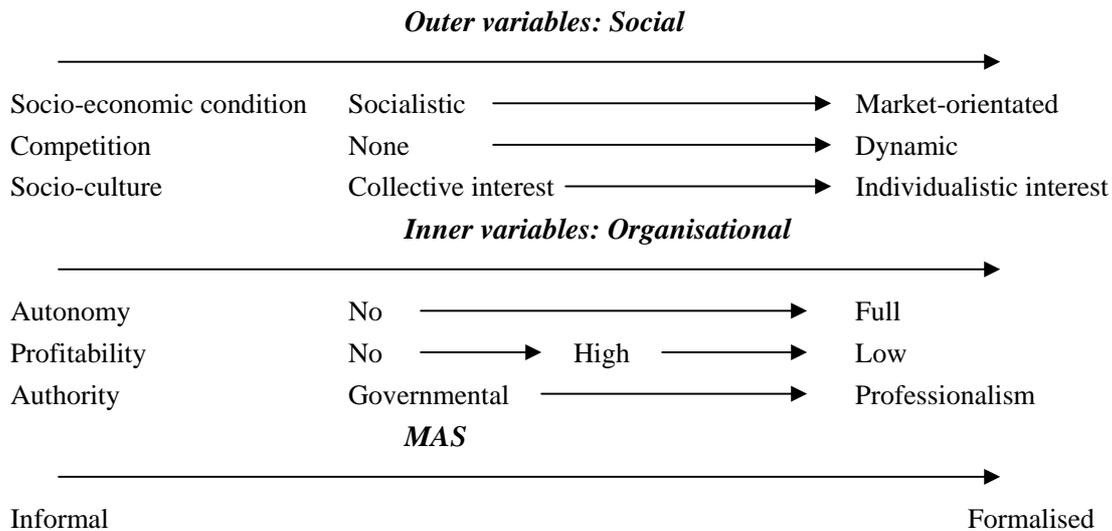
Stage	1956-1981	1981-1991	1991-2002	2002-the present
Organisation and its autonomy	A SOE The workshop with no autonomy  No emphasis on own economic development A closed system	A SOE The management responsibility contract system and increases in its autonomy  Little emphasis on own economic development A closed system	A listed SOE The modernised enterprise system and continual increases in its autonomy  More emphasis on own economic development A semi-open system	A listed private firm Improvements in the modernisation process, massive downsizing & spin-offs and full autonomy  Full emphasis on own economic development An open system
Orientation	The production plan  Production-focused	The quota profit  Productivity-focused	Profit, but also concerned about social responsibility Quality-focused	Profitability as the only promise for business survival and competitive success Competitiveness-focused
Management and authority	A group of foremen  Low educational and professional level	A group of contractors  An improvement in educational and professional level	A group of agents  Specialised professionals	The private owners  Specialised professionals

Similarly, the changing nature of authority in SLIMSC can be considered as another important explanatory indicator. Over the period from 1956 to 1991, the senior managers who were less specialised professionals mostly followed governmental instructions carefully, and they had little innovative thought of the Company's own

economic development as well as few plans for innovative change in the MAS. Since the 1990s, when the Company became increasingly exposed to market competitions, in particular when it became privatised, business authority was transferred to a group of specialised professionals who have continuously established the new MAS as a means of reaching attainment of the goal of competitive success.

### **6.2.3 The double sidedness effects on the MAS change in SLIMSC and the six multiple variables**

The social and organisational changing factors illustrate that the MAS change was as a response to the Company's adaption to external changes on the one hand, and was also a consequence of a set of internal proactive actions taken by SLIMSC managers on the other (Amat *et al.*, 1994). In particular, the three organisational effects indicate the movement to an increasing focus on SLIMSC's own economic development within the corporate boundary. Hence, the case further illustrates that the interaction of three outer factors (socio-economic condition, competition and socio-culture) with three inner ones (autonomy, profitability and authority) greatly impacted on the introduction, implementation and change of the Company's MAS during 1956-2004. Following Amat *et al.*'s (1994) approach, the six elements can be taken together, constituting a continuum whose extremes and middle point are shown in Figure 6.1.

**Figure 6.1 MAS and outer and inner variables in SLIMSC**

On the left side of the continuum is summarised the condition of SLIMSC during 1956-1981. At the social level, China ran its economy under the socialistic planned economic model; there was no certain market for trade, and no opportunity for competition. The Chinese people (SLIMSC people) were paid at an equalised wage and viewed political achievements and collective interest as vital in their careers.

At the organisational level, SLIMSC ran like a workshop of the state in accomplishing the quantitative-based production plan. Certainly no autonomy existed at this stage. The notion of profitability also did not exist as the state would collect all annual revenue and surplus from SLIMSC. The superior control power was given to the Company's communist party committee; the managers had no say over daily operations but only followed the instructions given by the higher authorities. Hence, there was no need for SLIMSC to adopt any formalised management accounting techniques for

its own economic development, and the accountants were working under the unified financial accounting system set by the state to carry out book-keeping tasks.

In the next period, 1981-1991, China stepped into the early reform era. At the social level, China gradually opened its doors to the external world, granted more autonomy to the SOEs and developed an embryonic form of the market. Although the notion of competition correspondingly emerged in the economy, the level of competition was extremely low due to the nation's economy still running under the former command system. In addition, there were scarcities of both industrial and consumer goods and raw materials in the period. Although the majority of the Chinese people (including SLIMSC people) during the period still favoured the collective interest and considered money as not everything, there was certainly a tendency towards cultural change in society as the nation began to pay more attention to social developments economically rather than politically.

At the organisational level, there was an extension of SLIMSC autonomy in deciding its own economic development since the management responsibility contract system was further established and implemented in the Company. The notion of profitability emerged at the Company due to the implementation of the profit-retention program, and subsequently the Company enjoyed a period of high profitability as a result of strong governmental support and the low level of competition. Also, lured by the benefits from the external larger demand due to the scarcities, SLIMSC decided to enhance the level of productivity by acting on the technological improvements. In

addition, the managers in SLIMSC obtained more political and economic powers to control the business operations. Also, managerial decision-making was undertaken on an increasingly professionalised basis. Inevitably, managerial know-how and level of education were emphasised more by SLIMSC.

Consequently, there came the first stage of formalising the MAS in SLIMSC through the establishment and implementation of the new financial management system to cope with the external and internal changing factors during the period. Although the goal and role of the new system mainly favoured the governmental interest, there was still a movement towards improving SLIMSC's own economic development and individual compensation. In particular, in the 1980s, SLIMSC began to incorporate some westernised management accounting methods into the decision-making process, investing in new projects with its own funds. In addition, the facilitation of the new legitimised financial accounting rules and procedures also supplemented the MAS formalisation process over the period.

During the next period, 1991-2002, China's economy was stepping into the critical transformation period. At the social level, the market-orientated economy gradually replaced the former planned one, and accelerations of China's economic reform brought a large amount of foreign investments and imports into the local market. As a result, the nation's competitive environment became dynamic in the later 1990s. During the period, there was also an explicitly socio-cultural shift toward

individualistic values and interest among the Chinese people (and SLIMSC people), as China became a more open society and the people became more economically independent. For example, there was a large increase in numbers of private firms and other non-state organisations in China during the 1990s.

At the organisational level, the restructuring process toward the modernised corporate structure took place when SLIMSC went public. However, the modernised SLIMSC at this stage had not prepared enough for confronting the external competitive pressures when the governmental support vanished in 1995. As a result, business profitability continuously decreased; in particular, SLIMSC operating profits had become negative by 1998. Furthermore, many long hidden problems such as the social burden of redundancy payments and the low quality product lines, were surfacing and SLIMSC was struggling for business survival from the mid-1990s. In addition, collapses of several of the joint-ventures during the period pushed SLIMSC into a worsening situation. However, the autonomy of SLIMSC had been further extended tremendously in this period so that the top managers could make a broader number of independent decisions on the business operations. Also, the governmental authority had been transferred from the political agents in SLIMSC to the increasingly specialised managers, and coordination with external professional institutions had also been undertaken on a more frequent basis.

Consequently, there came the second stage of formalising the MAS in SLIMSC through the establishment and implementation of the new legitimised financial accounting rules and procedures on a more internationally comparable basis, the new quality management system focusing on long term economic development and the new budget-based performance measurement and compensation systems in order to effectively motivate and control the staff who had changing values, thinking and behaviour.

The right side of the continuum summarises the condition of SLIMSC since 2002. At the social level, China's market-orientated economy has reached a mature stage and the competitive environment has become more dynamic since the accession of China to the WTO has resulted in more overseas imports and investments flooding into the market. Socially, individuals strongly favour individualistic interest. They (SLIMSC people) work harder because they want to earn more for themselves and they have adopted the cost-benefit evaluation model to guide their follow-up actions.

At the organisational level, SLIMSC became a fully independent business entity when it was privatised in 2002. Meanwhile, profitability is still low even though SLIMSC has undertaken massive business restructuring during 2002-2003. The authority in SLIMSC is no longer governmental but has all transferred to the private owners and the new specialised managers. As a result, there came the third stage of formalising the MAS in SLIMSC, involving restructuring of the budget-based performance

measurement and compensation systems of the 1990s, and establishing and implementing the computer-based management information system in 2003.

### **6.3 Comparison with the case of DERESA**

The case of SLIMSC further confirms the significant impact of three of the social and organisational change factors (change in the level of competition, change in profitability, and change in authority) on MAS change, as identified in DERESA by Amat *et al.* (1994). Also, this study, under the notion of dualism, further confirms that there are double-sidedness effects on MAS change as Amat *et al.* (1994) argued. For instance, the establishment of a computer-based management information system in SLIMSC partly resulted from external competitive pressures on the Company's survival, and was partly initiated purposefully by a group of specialised managers, acting on a planned innovation in aiming at strategic success.

However, this study identifies three new change factors at the social and organisational levels: the socio-economic transformation, the socio-cultural shift and the increasing amount of autonomy, all of which had a tremendous effect on the progressive formalisation of the MAS in SLIMSC, in contrast with DERESA. Furthermore, as mentioned in Chapter 2, during the period of economic change in China, the political system remained the same. Therefore, the changes observed were not as a result of political change. In contrast, DERESA illustrates the

important impact of the increasingly democratic political control in Spain on the MAS change. Also, SLIMSC was not concerned with profits in the 1956-1981 period in contrast to DERESA which enjoyed high profitability in the first stage of the MAS change.

Among other explicit differences between the two companies, SLIMSC started as a big SOE whereas DERESA began as a small family-like business. The business scale of SLIMSC has been constantly shrinking whereas DERESA experienced continuous expansion in its business over the period studied. Also, SLIMSC has gradually developed an emphasis on its own operating improvements whereas DERESA, as an independent economic entity since the beginning, had always concentrated on its own economic development. In this respect, the managerial proactive actions taken in DERESA, such as the heavy focus on R&D in designing leading quality products, was exercised earlier and on a more innovative basis than in SLIMSC. As a result, the internal effects on the MAS change, characterised by intentional forces to adopt and change the new MAS, were stronger in DERESA than in SLIMSC.

#### **6.4 Conclusion**

In conclusion, this study confirms the effectiveness of the model of dualism by linking the interactions of social and organisational dynamics in analysing the MAS

change in a Chinese company over the last more than forty years. This study also recognises the importance of the dualistic nature of organisations and MAS change in organisations. This confirms Amat *et al.*'s (1994) argument that the dualistic nature of MAS change rejects any one-sided deterministic solution by “stressing the existence [of] or change in MAS as the consequence of either external or internal factors to the organisation” (p.118). Furthermore, the model helps to conceptualise the process of change in MAS in the context of rapidly changing nations since in those contexts there is likely to be a continuously correlated process of change in societies, in organisations and in the MAS in organisations.

This study concludes that there are three outer factors (socio-economic condition, competition and socio-culture) and three inner ones (autonomy, profitability and authority) which had an enormous effect on the MAS change in SLIMSC during 1956-2004. This study also endorses Amat *et al.*'s (1994) model of dualism, and shows that there is scope for more studies of contextual aspects of MAS change in rapidly changing nations.

## References

- Accounting Law of the People's Republic of China, 1985. Beijing, Chinese Financial and Economic Publishers. [in Chinese]
- Adhikari, R. and Yang, Y. Z., 2002. *China's Increasing Openness: Threat or Opportunity to Others?*, Singapore, ADB Institute.
- Amat, J., Carmona, S. and Roberts, H., 1994. Context and change in management accounting systems: a Spanish case study, *Management Accounting Research*, **5**, 107-122.
- Anderson, S. W. and Lanen, W. N., 1999. Economic transition, strategy and the evolution of management accounting practices: the case of India, *Accounting, Organizations and Society*, **24**, 379-412.
- Anderson, S. W. and Young, S. M., 1999. The impact of contextual and process factors on the evaluation of activity-based costing systems, *Accounting, Organizations and Society*, **24**, 525-559.
- Bailey, D., 1995. Accounting in transition in the transitional economy, *European Accounting Review*, **4**, 595-623.
- Bartol, K., Martin, D., Tein, M. and Matthews, G., 2001. *Management: A Pacific Rim Focus (3<sup>rd</sup> Ed.)*, Sydney, McGraw-Hill, Irwin.
- Brewer, P. C., 1998. National culture and activity-based costing systems: a note, *Management Accounting Research*, **9**, 241-260.
- Briers, M. and Chua, W. F., 2001. The role of actor-networks and boundary objects in management accounting change: a field study of an implementation of activity-based Costing, *Accounting, Organizations and Society*, **26**, 237-269.

- Burns, J. and Scapens, R. W., 2000. Conceptualizing management accounting change: an institutional framework, *Management Accounting Research*, **11**, 3-25.
- Burns, J. and Vaivio, J., 2001. Management accounting change, *Management Accounting Research*, **12**, 389-402.
- Chen, J. J., 2004. Determinants of capital structure of Chinese-listed companies, *Journal of Business Research*, **57**, 1341-1351.
- Chow, C. W., Harrison, P., Lindquist, T. and Wu, A., 1997. Escalating commitment to unprofitable projects: replication and cross-cultural extension, *Management Accounting Research*, **8**, 347-361.
- Chow, C. W., Deng, F. J. and Ho, J. L., 2000. The openness of knowledge sharing within organizations: a Comparative study of the United States and the People's Republic of China, *Journal of Management Accounting Research*, **12**, 65-95.
- Chow, C. W., O'Conner, N. G. and Wu, A., 2001. *The Increased Adoption of "Western" Management Controls in China's State-Owned Enterprises: An Exploration of Forces, Barriers and Facilitators*, San Diego, San Diego State University Press.
- Chow, G., 2002. *China's Economic Transformation*, New York, Blackwell Publishers.
- Czarniawska, B. and Joerges, B., 1996. Travels of ideas. In B. Czarniawska & G. Sevón, (Eds.), *Translating Organizational Change*, Berlin and New York, de Gruyter, 13-68.
- Drury, C. and Tayles, M., 1994. Product costing in U.K. manufacturing organisations, *The European Accounting Review*, 443-469.
- Farmer, R. N. and Richman, B. M., 1965. *Comparative Management and Economic Progress*, Homewood, Irwin.

- Firth, M., 1996. The diffusion of managerial accounting procedures in the People's Republic of China and the influence of foreign partnered joint ventures, *Accounting, Organizations and Society*, **21**, 629-654.
- Fleishman, R. K., Mills, P. A. and Tyson, T. N., 1996. A theoretical primer for evaluating and conducting historical research in accounting, *Accounting History*, **1**, 55-75.
- Foster, G. and Ward, T., 1994. Theory of perpetual management accounting lag in hierarchical organisations, *Accounting, Organizations and Society*, **19**, 401-411.
- Garrod, N. and McLeay, S., 1996. The accounting implications of political and economic reform in Central Europe. In N. Garrod & S. McLeay, (Eds.), *Accounting in transition*, New York, Routledge, 63-87.
- Giddens, A., 1981. *A Contemporary Critique of Historical Materialism*, London, MacMillan.
- Giddens, A., 1984. *The Constitution of Society*, Cambridge, Polity Press.
- Giddens, A., 1990. *The Consequences of Modernity*, Cambridge, Polity Press.
- Gilling, G. M., 1976. Accounting and social change, *International Journal of Accounting*, **5**, 201-232.
- Granlund, M., 2001. Towards explaining stability in and around management accounting systems, *Management Accounting Research*, **12**, 141-166.
- Gray, S. J., 1988. Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally. In S. J. Gray & L. H. Radebaugh, (Eds.), *International Accounting & Multinational Enterprises*, New York, John Wiley & Sons, Inc., 35-70.

- Gray, S. J. and Roberts, C. B., 1991. East-West accounting issues: a new agenda, *Accounting Horizons*, **2**, 42-50.
- Green, S., 2003. *Reforming China's Economy: A Rough Guide*, London, The Royal Institute of International Affairs.
- Haldma, T. and Lääts, K., 2002. Contingencies influencing the management accounting practices of Estonian manufacturing companies, *Management Accounting Research*, **13**, 379-400.
- Hofstede, G. H., 1991. *Cultures and Organizations: Software of the Mind*, London, McGraw-Hill.
- Hofstede, G. H., 1993. Cultural constraints in management theories, *Academy of Management Executive*, **7**, 81-93.
- Hopwood, A., 1987. The archaeology of accounting systems, *Accounting, Organizations and Society*, **12**, 207-234.
- Hoque, Z. and Hopper, T., 1994. Rationality, accounting and politics: a case study of management control in a Bangladeshi jute mill, *Management Accounting Research*, **5**, 5-30.
- Huang, Y., Cai, F. and Duncan, R., 1998. Reform of State-Owned Enterprises in China: key measures and policy debate. In R. Duncan and Y. Huang, (Eds.), *Reform of State-Owned Enterprises in China: Autonomy, Incentive and Competition*, Canberra, NCDS Asia Pacific Press, 1-36.
- Jaruga, A., 1996. Accounting in socialist countries: the beginnings of reform. In N. Garrod & S. McLeay (Eds.), *Accounting in transition*, New York, Routledge, 34-56.
- Jefferson, G. and Rawski, T., 1994. Enterprise reform in Chinese industry, *Journal of Economic Perspectives*, **8**, 47-70.

- Johnson, H. T. and Kaplan, R. S., 1987. *Relevance Lost: The Rise and Fall of Management Accounting*, Boston, Harvard Business School Press.
- Kaplan, R. S., 1985. Accounting Lag: The Obsolescence of Cost Accounting Systems. In K. Clark & E. Lorenze (Eds.), *Technology and Productivity: The Uneasy Alliance*, Boston, Harvard Business School Press, 195-226.
- Kaplan, R. S., 1998. Creating new management practice through innovation action research, *Management Accounting Research*, **10**, 89-117.
- Keidel, A., 1998. Trends and patterns in state-owned enterprise losses and reforms. In R. Duncan and Y. Huang, (Eds.), *Reform of State-Owned Enterprises in China: Autonomy, Incentive and Competition*, Canberra, NCDS Asia Pacific Press, 51-86.
- Lawrence, S. C., 1997. Solving the Chinese accounting puzzle, *Management Accounting*, **75**, 36-38.
- Lee, J., 2001. Financial restructuring of state owned enterprises in China: the case of Shanghai Sunve Pharmaceutical Corporation, *Accounting, Organizations and Society*, **26**, 673-689.
- Lin, J. Y., Cai, F. and Li, Z., 1997. Creating an Environment for Fair Competition is the Core of Enterprise Reform. In G. J. Wen & D. Xu, (Eds.), *The Reformability of China's State Sector*, Singapore, World Scientific, 47-66.
- Lin, Z. J. and Yu, Z. B., 2002. Responsibility cost control system in China: a case of management accounting application, *Management Accounting Research*, **13**, 447-467.
- Luther, R. G. and Longden, S., 2001. Management accounting in companies adapting to structural change and volatility in transition economies: a South African study, *Management Accounting Research*, **12**, 299-320.

- Malmi, T., 1999. Activity-based costing diffusion across organisations: an exploratory empirical analysis of Finnish firms, *Accounting, Organizations and Society*, **24**, 649-672.
- O'Connor, N. G., 1995. The influence of organizational culture on the usefulness of budget participation by Singaporean-Chinese managers, *Accounting, Organizations and Society*, **20**, 383-403.
- People's Daily, 1991. Foreign investment in China, 11 October.
- People's Daily (Overseas Edition), 1993. Seven points of opinions in regards of strengthening the regulation of real estate market raised by the Ministry of Construction, the State Land Administration Bureau, the State Administration of Industry and Commerce, and the State Taxation Bureau, 14 August.
- People's Daily, 2005. Top statistician on China's economic figures after national census, 22 December.
- Pfeiffer, J. and Salancik, G., 1978. *The External Control of Organizations*, New York, Harper and Row.
- Qiu, F. and Chadee, D. D., 2001. Foreign ownership of equity joint ventures in China: A pooled cross-section time series analysis, *Journal of Business Research*, **52**, 123-133.
- Rawski, T. G., 1997. Implications of China's reform experience. In G. J. Wen & D. Xu, (Eds.), *The Reformability of China's State Sector*, Singapore, World Scientific, 189-219.
- Rawski, T. G., 1999. *China's Move to Market: How Far? What Next?*, Pittsburgh, University of Pittsburgh.

- Roberts, J. and Scapens, R., 1985. Accounting systems and systems of accountability: understanding accounting practices in their organisational contexts, *Accounting, Organizations and Society*, **10**, 443-456.
- Scapens, R. W. and Roberts, J., 1993. Accounting and control: a case study of resistance to accounting change, *Management Accounting Research*, **4**, 1-32.
- Scapens, R. W. and Yan, M., 1993. Management accounting research in China, *Management Accounting Research*, **4**, 321-341.
- Shi, S. and Weisert, D., 2002. Corporate governance with Chinese characteristics, *The China Business Review*, **29**, 40-44.
- Skousen, C. R. and Yang, J., 1988. Western management accounting and the economic reforms of China, *Accounting, Organizations and Society*, **13**, 201-206.
- Soin, K., Seal, W. and Cullen, J., 2002. ABC and organizational change: an institutional perspective, *Management Accounting Research*, **13**, 249-271.
- Southworth, A., 1994. Accounting for East-West joint ventures: Tambrands' experience in the Ukraine, *Management Accounting Research*, **5**, 167-188.
- State Statistical Bureau, 1997. *Statistical Yearbook*, Beijing, China Statistical Publishing House. [in Chinese]
- Sturdy, A. and Morgan, G., 2000. *Beyond organisational change: towards a discursive approach to change and a structural approach to discourse*, APROS 2000 conference: organising knowledge economies and societies, Sydney, University of Technology.
- Szychta, A., 2002. The scope of application of management accounting methods in Polish enterprises, *Management Accounting Research*, **13**, 401-418.

- Tan, B. L. B., 2002. Researching managerial values: a cross-cultural comparison, *Journal of Business Research*, **55**, 815-821.
- Tapen, S. 1995. Why western accounting methods are needed in China now, *Management Accounting*, **73**, 18-20.
- Tian, G. Q., 1997. State-Owned Enterprise reform and smooth institutional transition in China: a three-stage economic reform method. In G. J. Wen & D. Xu, (Eds.), *The Reformability of China's State Sector*, Singapore, World Scientific, 220-240.
- Van de Ven, A. and Poole, M. S., 1988. Paradoxical requirements for a theory of organizational change. In R. E. Quinn & K. S. Cameron, (Eds.), *Paradox and Transformation: Toward a Theory of Change in Organization and Management*, Cambridge, MA-Ballinger, 19-63.
- Vamosi, T., 2000. Continuity and change; management accounting during processes of transition, *Management Accounting Research*, **11**, 27-63.
- Williams, J. J. and Seaman, A. E., 2002. Management accounting systems change and departmental performance: the influence of managerial information and task uncertainty, *Management Accounting Research*, **13**, 419-445.
- World Bank, 2003. *China's Accession to the WTO*, Tokyo, World Bank.
- Xu, Z. and Li, L., 1996. *Management History of China's Publicly Owned Enterprises*, Shanghai, Shanghai Academy of Social Sciences Press.
- Yin, R., 1984. *Case Study Research: Design and Methods* (1st Ed.). Beverly Hills, CA, Sage Publishing.
- Zhou, Z. H., 1988. Chinese accounting systems and practices, *Accounting, Organizations and Society*, **13**, 207-224.