

# Trends of the business development in contemporary economic environment



A major challenge facing global organisations is the need to align local business processes with global corporate strategies. Discuss ways in which management accounting and control practices might facilitate this whilst highlighting the potential problems inherent in those practices.

## Introduction

The global competition becomes fierce as firms in an industry treat the world as a single market. To set up multinational company or make firm internationalized, it could be considered as the main trend of the business development in contemporary economic environment and could help business expand to a new level in long term development. However, the major challenge facing global organisations is the need to align local business processes with global corporate strategies. In other words, how to make an appropriate localization strategy in accordance with company's global corporate strategy is the core in overseas development. Management accounting and control is a useful integrative technique that concerned with coordination, resource allocation, motivation, and performance measurement etc. The purpose of this essay is to explore how management accounting and control systems deal with the coordination of the global corporate strategy and the local business process as confronting the challenges and the potential problems. Firstly, this paper will illustrate the meaning and the main theories of management control to identify its endowed role in changing environment. Then through enumerating and analysing the challenges for the management accounting and control in the contemporary business environment, the objective and role of management

control system will be identified, simultaneously examples will be incorporated with discussions. Finally, a concluding section will be presented.

## Theories

### **-Definitions and main roles of MCS**

The definition of management control is adjusting as the rate of change increases. In 1965, Robert Anthony defined it, “ the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation’s objectives”. But this approach was very specific in the basic discipline in behavioural control; it’s hardly to fulfil the wider range and variety of consideration of the interaction of the control mechanisms and tended to narrowly focus on the large, hierarchical organizations. As emphasizing the management strategy’s dominant position in organization’s operations, the management control served like a tool to incorporate the whole performances. It was then defined, “ enhance organisational performance by ensuring the implementation of the organisation’s stated strategy” (Merchant and Van Stede, 2003). Due to the uncertain business environment, such as technological changes, social changes, political changes and the requirements of company internationalized, management control are considered as “ the process of guiding organisations into viable patterns of activity in a changing environment” (Berry, Broadbent and Otley, 2005).

Chenhall (2003) also mentioned that the terms management accounting (MA), management accounting systems (MAS), management control systems (MCS), and organizational controls (OC) are sometimes used

interchangeably. Management control systems contain many techniques such as Total Quality Management (TQM), Just In Time (JIT), Budgeting, Balanced scorecard etc.

### **-MCS in global economy**

In global economy, different culture could have an impact on the effectiveness and efficiency of control system. Managers live and work across different cultures and in different countries should understand cultural differences and sensitivities. Multinational companies need to control activities of global subsidiaries. Transplanting domestic control may be efficient but ineffective if not accepted because of cultural context (lecture notes). Management control system plays a decisive role in control and planning process.

Hofstede (1980) introduced the framework of culture dimension based on several studies on culture differences. He identified four primary dimensions the differentiate cultures: power distance, individualism& collectivism, masculine& feminine, and uncertainty avoidance. All the characteristics illustrated in this framework should be taken into account when conducting the management control system. This taxonomy is broadly used in many countries.

Power distance is defined as “ the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally.” Employees in large power distance countries are expect to accept the order from the upper staff or managers, such as Asian countries. They tend to be associated with

centralization and less participated in decision making. Individualism & collectivism indicates whether group or individual should get the focus. In individualism society, management focuses on managing the individuals and conducting based on individuals' interests. USA gets the highest score in individualism dimension. Hofstede's masculine & feminine dimension emphasizes gender's role more than gender. Women are supposed to be more modest, tender, and care about the quality of life whereas men are more determined, assertive and concerned with the success. This dimension implies on management control system how managers grasp their different interests to reward appropriately that achieve the best effect. According to the further study of this dimension, J. C. Lere and Kris Portz (2005) found that Japan, Austria, Great Britain, and the United States are more masculine on the masculine/feminine dimension. Denmark, Sweden, and Norway are more feminine. Uncertainty avoidance deals with a society's tolerance for uncertainty and ambiguity. In terms of high uncertainty avoidance culture country, the laws, rules and regulations reduce the uncertainty and ambiguity.

Nevertheless, Davidson (1980) stated that " the learning or experience of firms' international expansion can moderate the effects of cultural distance. Specially, firms in the initial stages of expansion might exhibit a clear preference for similar cultures, but firms in a more advantage of the expansion might not show this preference". Further as firms gain more experiences and adapt to the target market's environment, the influences of cultural distance can become less significant operating in foreign countries.

McSweeney (2002) also heavily criticised that “ treats national culture as implicit; core; systematically causal; territorially unique; and shared. These alleged characteristics are first described, and later challenged”.

## **MCS respond to the challenges confronting multinational firms**

The market penetration strategies of global firms are varied, but they could be concluded to a word: localization. Localization strategy is the core competitive strategy for multinational corporations (cross-national companies) as entering the target market country which including relationship (especially with government), product and service, marketing strategy, human resource, business operation mode, development and research.

However, localization in global economy is not completely implementing organization as exactly the same as the local organization or change entirely in order to fit the local market. It is just a sense of tending to be local, in terms of orchestrate responses to local condition and opportunities. A multinational company must have its unique outstanding corporate characteristics to rely on. From its initiative to mature process, every detail reflects the company’s core competency. Thus all the subsidiaries should keep their core competency all along, according to the host country’s geographical, cultural condition aligning properly on management strategy and marketing strategy. Localization is an advisable marketing strategy. Contrarily, the subsidiaries centrifuge organization’s core competency in order to implement truly localization, must lead to failure. For instance,

McDonald's selling point is western fast food, if it sells Chinese dumpling, there won't be a miracle happened.

There are four mainly challenges for implementing localization. Firstly, it is the local consumers' demand pressures. Many industries reflect highly national and geographical characteristics; they should fulfil immense diversity requirements of customers. Such as Microsoft, it launched its software in different languages for customers in worldwide.

Secondly, building up a good corporate image, multinational company could succeed in global development, to get the support from the local government, is generally depend on its cooperate image and visibility. Employ local people, implement material or resources locally supply, the company's culture and marketing strategy tend to fit local environment, all these mentioned above could contribute transnational in local development that consolidate corporate image.

Management accounting plays a role in coordination the flows of materials (sourcing of raw materials, components, sub-assemblies and the distribution of finished goods), flows of recourses including capital, technology and flows of information contains raw data, analysed information and accumulated knowledge( J. F. Dent). In particular, Bartlett and Ghoshal (1989) suggest that the coordination of international flows of material may be best accomplished by formalised systems for logistics management. The geographical spread of the firm's operations, the complexity implicit in flexible specialisation, and the ever changing nature of the firm's operations may necessitate a huge initial investment in appropriate systems. But, once

set up, they may render materials coordination routine. On the other hand, the coordination of resources should not be automated, they suggest. The allocation of capital, technology and people are key strategic decisions. They require sensitivity and judgement and a corporate overview.

Thirdly, it is blending into local culture. Cultural differences can lead to the subordination of central concerns to local interests (J. F. Dent, 1996). This is considered as the centrifugal tendency. Hamel and Parahalad (1989) indicated that a clear strategic intent or a vision of the future is one of the most potent centripetal forces for any organisation. Thus it embodies an active management process, to identify strategic imperatives and immediate operational objectives, communicating the importance of the objectives, and providing new objectives.

The planning process (MCS) offers great potential for managing consensus around the firm's strategic intent. Planning meetings, conferences and periodic reviews can be used to focus attention on the overriding goal for the organization, and to secure commitment towards its accomplishment. This implies a great deal of dialogue across the organization, bringing managers from different parts of the world together to participate in strategy debates and translate these into specific operational targets and milestones (J. F. Dent, 1996).

Finally, eliminating the integrative production cost. This requires multinational company take full advantages of low production cost, human resource cost and so on of local market to reduce the total cost, increase the total efficiency. J. F Dent (1996), indicated political pressures and the



renewed assertion of national differences in customer tastes and preferences suggest that global firms may need to add a greater capability for national responsiveness to their cost efficiency. The cost pressures suggest that multinational firms may require a higher level of integration to access scale economies. At the same time, firms may need to respond to increasing pressures for innovation, and to leverage these throughout the world.

Budgeting is not only the system about numerical data. It is also concerned with monitoring and evaluating the per

## **Examples**

China is witnessed the most rapidly developing country in the world in recent decades. Since 1992, China's economic reform movement, there have been more than 400 companies of Top 500 Global corporations invested in China. There is nearly 1/3 gross output constituted by foreign enterprises. So the investment behaviour and development of foreign enterprises are more typical and apparent in this resurgent market. There are two examples presented from positive and negative aspects.

### **Toyota China**

Toyota is one of the top three car manufacturers in the world. In China automobile market, Toyota once caught up with GM's sales to be No. 1. Under Toyota production system, Toyota centralized sixteen spare parts factories in Tian Jin, China, which is quite similar as the layout in head factory in Japan headquarter. In Japan, the main part of Toyota is in the middle, other spare part factories are located surround the main part. And it only takes 20 minutes between the centre and the part factory. Based on this organisation structure, Toyota creates Toyota model-Just in time. According <https://assignbuster.com/trends-of-the-business-development-in-contemporary-economic-environment/>

to the requirement for the spare part, Just in time makes the inventory to nearly zero. Its outstanding production system and control system not only maximize the effectiveness and efficiency, but also benefit its Chinese partners that promote the local automobile technology development. Moreover, Toyota set up its production factories on its target markets helps understand the current situation and demand of customers in maximum extend that could adjust or coordinate products or services flexibly to fulfil customers' needs. This Toyota model changed the structure of the global automobile manufacturing.

There is another example about failure on budgeting control.

## **KFC**

KFC has led China's fast food business for a very long time. KFC is dominating even rival McDonald's in China. In recent years, KFC has tailored some dishes specifically to Chinese tastes, customers can order seasonal vegetables or fruit. In spring, it is bamboo shoots; in summer, aloe vera and winter melon is on the menu. And in colder months, there's rice porridge and winter soup.

In order to accelerate expanding the market, KFC plans to challenge Chinese traditional breakfast market in 2009. It will launch Chinese fried twisted cruller which is most common food in Chinese breakfast (like burger or sandwich can be found everywhere on the street shop) and plans to introduce more Chinese traditional breakfast food. Its selling point is nutrition and health. KFC's fried twist cruller is without potassium alum. Alum is a part of ingredient of the traditional one, but it is just tiny little. But it is

the inorganic substance, may not be frequently edible. This new product promotes nutritional and health breakfast idea. However, compared with the traditional fried twisted cruller's price in Chinese breakfast restaurant, it is 6 six times than the market price. The colour, the flavour and the fluffy texture will keep original. As this news out, more than 50% net citizens are not interested this new KFC fried twist cruller.

KFC is a representative American fast food brand, burger or fried chicken are its star product, they are the core product KFC should put focus on. As considered as its competitor, more than millions breakfast restaurants are found all over the country. Challenge to expand its market to Chinese traditional breakfast market is not an advisable marketing strategy.

## **Conclusion**

Global competition is getting extremely fierce and the uncertain environment is still changing. Management accounting and control system is the key system for every business organization as it provides clarity framework to ensure the overall operations of the organization keep a capability to survive in its uncertain environment. In overseas operations, the parent company centralizes the whole operation and need to make sure the local subsidiaries' business process is in accordance with company's core strategy or keep company's core competency. There are four main challenges confront cross-national company: local customer's demand pressures, setting up good corporate image, culture, eliminating the integrative production cost. In initial phase, based on Hofstede's dimension of culture, the main strategy could focus on how to overcome the culture distance. But as all the operations on the track, planning and control

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processes (MCS) are very important in organization's performance. " They are essential for the efficient performance of functional management responsibility" (Otley, 1987). The management accounting function can contribute by creating focusing on competitive threats. Further, " the transnational also calls for new performance measures and reward structures. National subsidiaries no longer have a purely local role, rather they are part of a broader global effort. This implies a move from simply measuring their performance in local markets to evaluating their contributions to the firm's strategic intent. Richer, broader measures of performance are needed to reward behaviour in the corporate, as opposed to local (J. F. Dent, 1996)".