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# Management control design in a multinational setting: How to bridge national cultural distance

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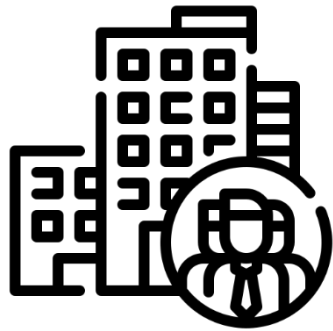
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# This paper focuses on a classical control problem

- Consistency in the use of management control (MC) practices between headquarters (HQ) and business units is often viewed as a desirable characteristic of MC to support strategy implementation
- Thus, it is not surprising that the literature points to a strong influence of HQ on the use of MC practices within the firm (Van der Stede 2003)
- But such a consistent use of MC practices can also be problematic – especially in multinational settings
- While the HQ's influence on MC design is often driven by the preferences underlying its specific national culture, there might be diverging preferences for MC practices in multinational settings (Malmi et al. 2020)

**Research question:** How does a HQ-consistent use of MC practices relate to managerial satisfaction in a multinational setting?

# The governance context is characterized by a preference for uncertainty avoidance



- Large industrial firm (> 200T employees)
- Headquartered in Europe with multinational businesses
- Germanic national culture of HQ
  - Typically associated with preferences for high uncertainty avoidance
  - For example, more involving and interactive MC practices instead of incentive contracts are used to complement the delegation of authority in such cultural contexts (Malmi et al. 2020)



- Focus on the delegation of decisions and the intensity of using performance indicators (Abernethy et al. 2004, Dekker et al. 2014)

# The role of national cultural distance for the relationship between a HQ-consistent use of MC practices and managerial satisfaction

- National culture as “the collective programming of the mind that distinguishes the members of one human group from another” (Hofstede, 1980, p.25)
- National culture determines individual values such as uncertainty avoidance, power distance, masculinity versus femininity, long term versus short term orientation (Hofstede et al. 2010)
- The literature shows that national culture goes along with different preferences for MC control design (e.g., Malmi et al. 2020)
- We therefore argue that the effect of a HQ-consistent use of MC practices on managerial satisfaction should be less pronounced for managers who possess a greater national cultural distance

**H1:** National cultural distance negatively moderates the association between a HQ-consistent use of MC practices and managerial satisfaction.

# The firm's beliefs system as a potential lever to counteract the negative moderating influence of national cultural distance

- The firm's beliefs system as a possibility for managers to define, communicate, and reinforce basic values, purpose, and direction of the organization (Simons, 1994)
- Bridging diverging preferences underlying national cultural distance
- By a stronger perception of higher and uniting basic values and direction of the firm, national cultural distant managers could also neglect their diverging preferences for MC practices

**H2:** The negative influence of national cultural distance on the association between a HQ-consistent use of MC practices and managerial satisfaction is less pronounced under a stronger perception of the beliefs system.

## To test the hypotheses, we use a survey within one large multinational firm



- One firm approach to exclude any firm-specific heterogeneity that may confound individual-level effects
- Survey and archival data on 860 managers
  - 544 HQ managers
  - 316 non-HQ managers
- Response rate of 45%

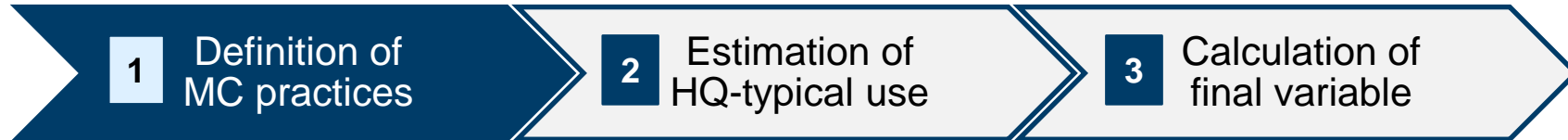
## Sample characteristics (1/2)

	HQ		Non-HQ	
	Obs.	Pct.	Obs.	Pct.
<i>Hierarchical level</i>				
Level 1 and 2	38	7%	25	8%
Level 3	163	30%	123	39%
Level 4	239	44%	120	38%
Level 5	104	19%	48	15%
<i>Function</i>				
Business function	330	61%	203	64%
Support function	214	39%	113	36%
<i>Age</i>				
Age < 40 years	15	3%	10	3%
Age 40-49 years	133	24%	107	34%
Age 50-59 years	352	65%	157	50%
Age > 59 years	44	8%	42	13%
<i>Tenure</i>				
Tenure < 10 years	23	4%	66	21%
Tenure 10-19 years	82	15%	92	29%
Tenure 20-29 years	243	45%	100	32%
Tenure >29 years	196	36%	58	18%
<i>Gender</i>				
Female	51	9%	39	12%
Male	493	91%	277	88%
<i>Total</i>	544	100%	316	100%

## Sample characteristics (2/2)

Nationality	Non-HQ	
	Obs.	Pct.
USA	87	28%
Austria	33	10%
United Kingdom	30	9%
Switzerland	22	7%
China	19	6%
India	18	6%
France	13	4%
Portugal	11	3%
Canada	10	3%
Brazil	9	3%
Turkey	7	2%
Argentina	6	2%
Belgium	6	2%
Netherlands	6	2%
Russia	6	2%
Spain	6	2%
Sweden	6	2%
Italy	5	2%
Czechia	4	1%
Colombia	3	1%
Denmark	3	1%
Ireland	3	1%
Pakistan	3	1%

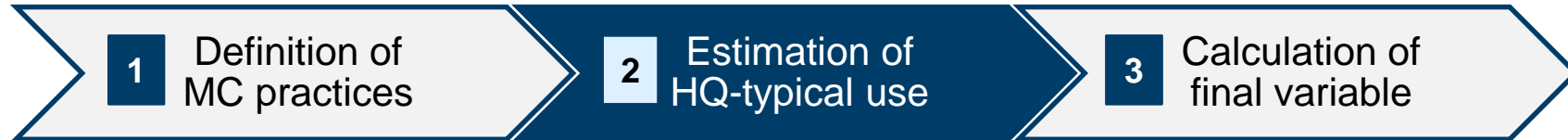
# Measuring the HQ-consistent use of MC practices (1/3)



- Focus on the delegation of decisions and the intensity of using performance indicators (Abernethy et al. 2004, Dekker et al. 2014)
- Confirmatory factor analysis to determine the delegation of decisions and the intensity of using performance indicators
- Average of both standardized factors as reflection of the specific use of MC practices

Factor	HQ		Non-HQ		Difference test	
	Mean	SD	Mean	SD	Mean	SD
Use of MC practices	0.012	0.702	0.055	0.818	<b>0.414</b>	<b>0.002***</b>

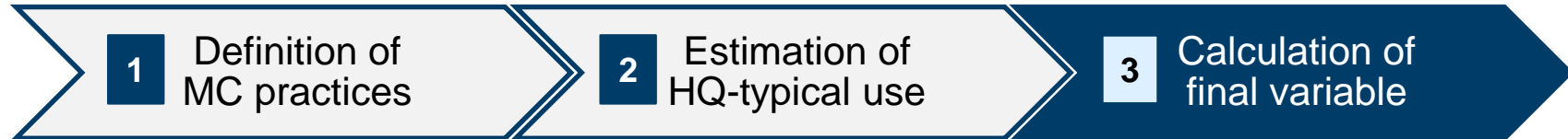
## Measuring the HQ-consistent use of MC practices (2/3)



- Estimate the HQ-typical use of MC practices by regressing it on firm structural characteristics in the HQ sample

	HQ-typical use of MC practices	
	Mean	N
<i>Hierarchical level</i>		
Level 1+2	0.107	38
Level 3	0.032	163
Level 4	0.012	239
Level 5	-0.056	104
<i>Profit margin</i>		
High	0.057	175
Medium	0.004	166
Low	-0.021	203
Total	0.012	544

## Measuring the HQ-consistent use of MC practices (3/3)



- Predict the HQ's typical use for each non-HQ manager
- Calculate the distance from the HQ's typical use for each non-HQ respondent
- Define our final variable as the inverse and winsorize at .01 and .99 level

# Variable measurement

## Individual satisfaction

Country-adjusted factor based on confirmatory factor analysis of the following four items:  
“My work has special meaning: this is ‘not just a job’”  
“When I look at what we accomplish, I feel a sense of pride”  
“I feel good about the ways we contribute to the community”  
“I’m proud to tell others I work here.” (Gartenberg et al., 2019)

## National cultural distance

Calculated as the distance between the scores of the respondents’ nationality for the six cultural dimensions of Hofstede and the HQ country (Kogut & Singh, 1988)

## Perception of the firm’s beliefs system

Factor based on confirmatory factor analysis of the following four items:  
“The purpose of the firm is clearly stated.”  
“Higher management regularly communicates the firm's purpose to our workforce.”  
„Our workforce is aware of the firm's purpose.“  
„The firm's purpose inspires our workforce.“ (Bedford and Malmi 2012, Heinicke et al. 2012)

## Controls

Gender, age, tenure, hierarchical level, profit margin, function, business unit fixed effects

# Regression results

Model	1	2	3
Method	OLS	OLS	OLS
Sample	Non-HQ	Non-HQ	Non-HQ
Dependent variable	Individual satisfaction	Individual satisfaction	Individual satisfaction
HQU	0.095** (2.136)	0.215*** (3.458)	0.117*** (2.430)
HQU * NCD		-0.112*** (-3.187)	-0.071** (-2.187)
HQU * NCD * BS			0.046** (1.813)
NCD		-0.160** (-1.745)	-0.068 (-0.926)
BS			0.422*** (4.506)
HQU * BS			-0.068*** (-2.707)
NCD * BS			0.033 (0.485)
Female	0.027 (0.149)	0.048 (0.272)	0.007 (0.045)
Age	-0.723* (-1.782)	-0.676* (-1.689)	-0.743** (-2.179)
Tenure	0.105 (1.223)	0.087 (1.062)	0.098 (1.388)
Hierarchical level	-0.009 (-0.121)	-0.015 (-0.186)	-0.003 (-0.051)
Profit margin	0.742 (0.560)	0.766 (0.579)	0.648 (0.536)
Support function	0.145 (1.321)	0.136 (1.223)	0.003 (0.028)
Business unit fixed effects	yes	yes	yes
R <sup>2</sup>	0.065	0.098	0.338
Obs.	316	316	316



## Hypothesis 1

- National cultural distance negatively moderates the association between a HQ-consistent use of MC practices and individual satisfaction



## Hypothesis 2

- The negative influence of national cultural distance on the association between a HQ-consistent use of MC practices and individual satisfaction is less pronounced under a stronger perception of the beliefs system



Notes. This table presents the results regarding the consequences of a HQ-consistent use of MC practices (HQU) for individual satisfaction. National cultural distance is abbreviated as NCD and the perception of the beliefs system is abbreviated as BS. The values of t-statistics are reported in parentheses. One-tailed tests are presented for the effects related to our main independent variables (HQU, NCD, and BS). For the control variables, two-tailed tests are presented. \*, \*\* and \*\*\* indicate the significance of the coefficients at the 1%, 5%, and 10% levels, respectively.

# With this paper we address existing literature in two major ways

## I The relevance of national culture for MC design

- Although the literature outlines the relevance of national culture for MC design (e.g., Malmi et al. 2020, Van der Stede 2003), there are mixed results on the concrete effects of the national culture (e.g., Andersen and Lueg 2017, Endrikat et al. 2020, Otley 2016)
- Complementing this literature by providing evidence for a negative influence of national cultural distance on the relationship between MC design and individual satisfaction

## II The interplay between national culture and the firm's beliefs system

- Although the literature emphasizes to consider MC practices as packages (e.g., Bedford and Malmi 2015, Otley 2016), little is known about the role of the firm's beliefs system and its interplay with other MC practices
- Addressing this gap by focusing on the beliefs system's potential to counteract potential dysfunctional effects of national cultural distance in the context of MC design

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**Thanks for your attention!**