

THE CRITICAL REVIEW ON ARTICLE ENTITLED ‘CENTRAL AMERICA: THE EFFECT OF ORGANIZATIONAL COMPLEXITY, COMPETITIVE FEARS, BUDGETARY WORK ROLE IMPORTANCE AND BUDGET CRITICALITY ON BUDGETARY MOTIVATION AND PERFORMANCE’ BY COLLINS, F., HOLZMANN, O. AND MENDOZA, R. (1996)

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ABSTRACT

The paper presents a critical review on the empirical findings conducted by Collins, F., Holzmann, O. and Mendoza, R. (1996). It also rationalises purposes of authors for conducting this study. It evaluates the data collection process of their study. Based on their empirical findings, a critical evaluation of the findings is presented to strengthen the worthiness of reading on this article.

Keywords: *Budgeting process, contingency theory, Central America, explanatory approach, exploratory approach, sampling selection, validation of research instrument.*

INTRODUCTION

The critical review below is based on an article titled ‘*Central America: The effect of organizational complexity, competitive fears, budgetary work role importance and budget criticality on budgetary motivation and performance*’ written by Collins, F., Holzmann, O. and Mendoza, R. in the *Journal of International of Accounting, Auditing and Taxation* printed in 1996 in volume 5, number 2, page 197 to 214.

RATIONALES OF THE STUDY

In order to better understand global business practice, organizations should familiar themselves with the similarities and differences of accounting process of various countries to gain a competitive advantage. Besides, understanding the characteristics of contingency factors is very useful in explaining the variations in budgetary control system and its effectiveness. Thus, this study aims to examine the influence of contingency factors, such as levels of competitive threats and organizational complexity, on budgeting process in Central America.

Rationales of this study can be explained into two-fold. Firstly, no intention was made on developing or testing new theories. Instead, these authors are interested to examine whether the findings of budgeting studies can be generally applied to the environmental setting of Central America or not. Thus, they are motivated to repeat several previous

studies (Brownell and McInnes, 1986; Collins *et al.*, 1987 and Milani, 1975) in order to assess the generalization of their findings and to form the basis of further work that is truly cumulative in nature. Such effort requires attention to be drawn on conceptualization of relevant variables, their measurement and type of sample drawn.

Secondly, the authors aim to add on the knowledge of budgeting practice into the literature of management controls in the context of national-specific, so that it will be beneficial for potential investors' knowledge on the how business practice is conducted in Central America. As the saying goes, "when in Rome, do as the Romans do". Similarly, Chow *et al.* (1994) emphasised that global organizations must be conformed to the cultural business practices of the host countries. That's why they stressed that "cultural differences suggest that management controls which are effective in one country may be ineffective, or even dysfunctional, in another".

This study uses evaluative, descriptive, explanatory and exploratory approaches in its research design. Firstly, it uses evaluative approach to indicate its research design is focused on strengthening or improving the existing accounting control theories that are being tested in the national context. It also aims to understand the outcomes or effects of such theories so that they can be used to assess the effectiveness of budgeting practice in Central America.

Secondly, it uses descriptive approach in its research design to add on the influence of culture on budgeting practice in Central America into existing literature of management control which will be meaningful for organizations that are eager in establishing international operations.

Thirdly, its explanatory approach aims to go beyond descriptive research with the purpose of explaining things in detail, instead of merely reporting the findings. Specifically, it will help answer the 'why' questions with the assistance of developing causal explanations between factors or variables in research questions. It will also enrich the reasoning behind the building of theories and add such new knowledge to predictions and principles where possible.

Lastly, its exploratory approach provides a significant insight into the effect of economic transformation of Central America prior and after joining the European Union (EU), as it creates an increasingly complex and hostile competitive environment for organizations in Central America. It aims to draw a cautious but definitive conclusion from its research design although little or no research is done in the setting of Central America, particularly in Costa Rica, Ecuador El Salvador, Panama and Nicaragua.

DATA COLLECTION PROCESS OF THE STUDY

The sample is collected from a group of Central American businessmen who attended seminars conducted by Instituto Centroamericano de Administracion de Empresas (INCAE), a graduate school of business located in Costa Rica during 1993.

Out of 143 responded individuals, 127 responses were usable and have a response rate of 81.8%. Others are inappropriate for usage of sampling due to missing data and other problems such as unreliable postal system in Central America and customs of secrecy in the cultural context of Central American countries.

The respondents represented in the sample design are situated in Costa Rica, Ecuador El Salvador, Panama, and Nicaragua. All respondents are male and have undergraduate degree. They are characterised as upper, middle management and work for organisations that are primarily dealing with local or international markets.

It is unlikely to compile a reasonable or appropriate sampling frame in a designated population in the context of Central American countries because of their complex historical background, inequality of education opportunity among males and females, available of international organisations and cultural influence among their people. Also, generalisation of non-probability sampling is not made possible because the sample is not representative to the population. In particular, total population of Costa Rica, Ecuador El Salvador, Panama, and Nicaragua are 4,563,538; 14,307,000; 3,405,813 and 5,822,000 respectively (Dewey, 2011). However, only 143 individuals from Costa Rica, Ecuador El Salvador, Panama, and Nicaragua responded the survey.

Besides, randomness is not the basis for selecting sample selection among Central Americans. There is a great heterogeneity among various countries in Central America. On one hand, Ecuador El Salvador experiences a high level of income inequality whereas Costa Rica has a low level of income inequality (Dewey, 2011). That means there are very few, if any, encouraging sign of economic improvement by the effort of local governments. Thus, there are very few upper and middle management working class people in these regions of Central America, especially those that are involved in international operations.

Furthermore, sample may be biased in an unknown way. Central America countries, such as Costa Rica, Ecuador El Salvador, Panama, and Nicaragua, are poor in its education achievement. This is because these countries vary in great detail in terms of history, culture, and widespread of poverty. For instance, Ecuador El Salvador and Nicaragua have experienced bloody civil wars and undergone a complex recovery process in both their economic and social reformations. In addition to that, countries in Central America are emphasised on masculinity, which holds the power of patriarchy at the highest levels possible in the hierarchy of organisations, over the power of women (Dewey, 2011). Central Americans are made to believe that occupational opportunities resulting from education are greater for males as compared to female. Hence, researchers in this article

surveys only male as their respondents but not women and thus, result in gender bias in the sampling design.

This study is designed using cross-sectional approach. Particularly, a subset of the entire population of Central America is selected and then data is collected from individuals from Costa Rica, Ecuador El Salvador, Panama, and Nicaragua using pre-determined research questions of interest distributed to them. Information collected from this study is carried out only at one point in time. In this case, these researchers attempt to investigate the relationships among organisational complexity, competitive fears, budgetary work role, and budget criticality on budgetary motivation and its performance. This is because they believe that the role of contingency factors would influence how managers make use of the information derived from budgetary control as it is intended to be useful to managers in performing their duties and to assist organisations in developing and maintaining viable patterns of behaviour (Otley, 1999).

EMPIRICAL FINDINGS OF THE STUDY

The initial model from the presented in this study was modified using LISREL technique (Joreskog and Sorbom, 1989) for examining structural relationships among variables to make it a better fit model supported by theory due to its initial unsatisfactory result. After revised, the model becomes theoretically supported because the relationship is found significant and logical for all hypotheses.

The revised model indicated that all hypotheses are confirmed except for the hypothesis that stated only fear of local competition in the present context is significant to budget criticality, not future context. Also, fear of international competition is not significant to budget criticality in both present and future contexts. Besides, budget criticality has a strong effect on importance of one's budgetary work and affects attitude towards one's budget. Importance of one's budgetary work exerts a strong effect on attitude towards one's budget, and attitude has a strong effect on budgetary performance. Lastly, attitude toward one's budget has the strongest direct and indirect effects on budgetary performance as compared to others such as organisational complexity, fear of local competition, importance of one's budgetary work and budget criticality. However, organisational complexity and fear of local competition demonstrate an indirect effect on budgetary performance. All these variables significantly affect budgetary performance, but those closer to performance have the strongest effect in the revised model.

EVALUATION ON THE EMPIRICAL FINDINGS OF THE STUDY

The result of findings is coherent with other researchers' empirical results (e.g. Horngren and Foster, 1991; Simon, 1990) that budget, indeed, becomes increasingly important in organisational control especially when their structure is complex and competition faced is forceful, typically in the context of Central America where its political and economic background is complicated. However, many other researchers (Jensen, 2001; Ekholm and

Wallin, 2000) are dissatisfied with the adoption of budgeting in practice and they resort to other techniques. They claim that conventional budgets can never be valid because they cannot capture the uncertainty involved in rapidly changing environments (Wallender, 1999) and fail to deliver desired result (Neely *et al.*, 2003), especially in view of the political and economic situation in Central America. Instead, it is suggested conventional budgeting tool to be replaced with more practical tools such as Activity-based Budgeting (Hansen *et al.*, 2003), Zero-based Budgeting (Neely *et al.*, 2003) and Flexible Budgeting (Mark and Roush, 1994), as they can better improve the focus and accuracy of budgetary performance. Thus, the usefulness of conventional budgeting as a means of management control in contemporary organisations is required to be investigated thoroughly in future research.

Besides, from the contingency theory perspective, operators have to seek for appropriate fit among and/or within contextual factors, such as environment and technology; design factors, such as strategy and institutional models; and structural factors, such as complexity, centralisation and formalisation (Barth, 2003). For instance, organisations that adopt tight control systems and overhead minimisation have to focus their attention to internal factors such as production and engineering functions. However, this research merely examines two contingency factors, namely fear of competition and organisational complexity. Neglecting other factors may result in a misalignment in formulating appropriate strategy in the corporate level and thereby influence the implementation of budgetary control practice.

Lastly, many researchers (Baker and Hart, 1989; Buckley *et al.*, 1988) also commented that comparison of result is difficult when budgetary performance is measured at national level. Instead, organisations should compare its performance with its industry competitors (Dess and Robinson, 1984). Thus, designing an effective performance measurement tool may pose a great challenge to the existing authors in their future researches.

CONCLUSION

This article, first, is highlighted with the importance of seeking a representative sampling in research designs. It must be proportionally represented in the population of study. For instance, if Collins, F., Holzmann, O. and Mendoza, R. (1996) were to conduct their research once again, they should have taken into account lower and non-managerial staff for both genders who deal with local or international markets. In other words, it would not be enough to include only upper and middle management staff who are males in their sampling. Thus, the sample would not be very representative of Central Americans in general. It is because every staff working in the organisations are one way or the other involved in implementing the budgetary control activities. Thus, they all should have an equal chance of being selected in participation of this survey.

Besides, research design of Collins, F., Holzmann, O. and Mendoza, R. (1996) should equate with not only quantitative but also qualitative methods, as the later adopts an interpretive approach in analysing data, examines data within their context of current

circumstance and considers the subjective meanings of why people behave differently in a particular environment or situation. In addition to that, qualitative methods provide information and explanations that are adequate at the level of meaning in data analysis, which is a weakness in quantitative methods. For instance, these researchers could have interviewed their respondents to find out why fear of local competition in the future context is insignificant, according to their findings. It will, in turn, provide a valuable research insight to the existing review.

Lastly, this article is stressed on the importance of validating the designed research instrument, so that the result drawn will be accurately represented in what really happens in a situation. Likewise, the content of the measure should always be validated so that each question is measured what it is supposed to be measured (Kerlinger, 1986). However, research errors such as biased and insufficient representation of samples can undermine validity of a study. For instance, research by Collins *et al.* (1996) has only 143 respondents from four Central American countries where the average population of each country is more than 1 million. Such sample may be poorly collected and thus it affects the generalisation of the research findings. They also use back-to-back translation to validate the design of questionnaire to avoid literal translation, so that local respondents understand the questions posed to them. Such method may be costly but result may be satisfactory if the translation is undertaken exhaustively.

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