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## Self-selection, socialization and budget control in the PRC: a study of a U.S.–Sino joint venture and Chinese state-owned enterprise

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### Abstract

This study examines a range of self-selection (alternatives and achievement motivation) and socialization (Western training and indoctrination) factors that are likely to be related to the use of formal budget controls in a U.S.–Sino joint venture (JV) and its state-owned Chinese partner in China. The formal budget mechanisms comprised participation in budget setting, budget emphasis in performance evaluation, and merit-based reward structure. Hypothesised relationships were set up between these variables and tested using a LISREL path model. The analysis was confined to a survey of 63 Chinese sub-unit managers in a single U.S.–Sino JV and its state-owned enterprise (SOE) partner in the advertising industry. The relationships between manager self-selection, socialization practices, and the use of merit-based rewards were found to be significant, regardless of the type of entity. The results indicate that self-selection (achievement motivation) and socialization processes are important co-determinants of the use of formal budget controls in the China context. This study is one of the firsts to test the role of self-selection and socialization in the management control of organizations in China. © 2000 Elsevier Science Inc. All rights reserved.

**Keywords:** International joint ventures; Chinese management; Management control

Since reforms were initiated in the People's Republic of China (PRC) in 1978, growth in foreign investment has been dynamic. Annual foreign investment has grown in subsequent years to \$US37 billion (1994) and \$US38 billion (1995) (A Statistical Survey in China, 1996). Joint ventures (JVs) between overseas companies and domestic state-owned enterprises (SOEs) have been the main vehicle through which much of this investment has taken place. However, on the basis of findings in the academic literature, many JV initiations have not been successful (Eiteman, 1990; Child, 1991; Beamish, 1993; Allen et al., 1995). Allen et al. (1995) argue that, '(1) enhancing customer orientation; (2) increasing effective utilization of human resources; and (3) development of financial information systems' are three challenges facing managers in the PRC in the 1990s. Such challenges have been attributed to the nature of Chinese culture and the socialist institutional setting, which legitimate any resistance to change toward

a more capitalist approach to management (Redding, 1990; Whitley, 1992; Child and Markoczy, 1993).

In light of such challenges, recent work has examined the factors that may precipitate the adoption of formal *capitalist-style* management accounting systems (MAS) in JVs and SOE entities in China (Scapens and Meng, 1993; Firth, 1996). Using the JV as the focal change agent, Firth describes how JVs represent a medium by which formal capitalist-style MAS can be transferred to Sino enterprises. SOEs that joint venture with foreign partners were found to adopt newer and more detailed management accounting techniques than their non-JV SOE counterparts (Firth, 1996). The importance of integrated learning as the key to change the behavior of local managers has also been highlighted by researchers in this area (Child and Markoczy, 1993; Yan and Gray, 1994).

The limited evidence to date highlights the potentially important role of manager self-selection and socialization practices in facilitating the use of capitalist-style management controls. However, the extent to which manager self-selection and socialization practices are related to the use of more formal management controls has yet to be system-

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atically examined through direct measurement in the literature. In this study, self-selection is defined as the number of job alternatives and the capitalist-orientation (or level of achievement motivation) of managers while socialization practices refer to capitalist training and indoctrination processes. Using data collected from a U.S.–Sino JV and its SOE partner, the purpose of this study is to: (i) examine the nature and extent of manager self-selection and socialization practices present in each entity; and to (ii) determine whether self-selection and socialization are positively related to the use of formal budget controls — participation in budget setting, budget-based performance evaluation, and performance-based monetary incentives (reward structure). Consistent with more recent studies of JVs in the developing nation setting (Yan and Gray, 1994; Firth, 1996), this study compared the responses of Chinese managers in both the JV and the SOE partner.

This is an important topic for the integration of management control systems (MCS) in Western–Sino JVs and SOEs as exploratory findings to date indicate that the change process involves modifying Chinese manager preferences (Firth, 1996). One way to attain this outcome is to hire capitalist-oriented employees (who have studied and/or worked overseas, or worked in other Westernized JVs), and/or engage in socialization (for example, recruitment, selection, indoctrination, training, mentoring, career ladders, and reward system) (Van Maanen and Schein, 1979; Chatman, 1989). Alternatively, local employees who have predispositions toward Western management practices are likely to self-select capitalist-oriented entities that reward achievement orientation. The emphasis on socialization, hiring, and self-selection practices is likely to complement the use of formal budget controls in the emerging economy context.

The main consideration in the design of the current study was twofold. First, to control for industry and organizational influences, which was achieved by concentrating the study on the largest and most successful SOE advertising agency and its JV with one of the largest and most successful foreign advertising agencies (Media, 1997). In particular, (i) Advertising is a service industry with high exposure to the outside world (Grosse, 1996). A full-service advertising agency is more likely to attract people with skills (for example, communication and creativity) that facilitate the transfer of capitalist management techniques compared with other categories of companies within the service industry. (ii) Different organizations in China differ significantly in operational and financial performance, working environment, and corporate culture. For example, in recent studies on China, the service sector has been differentiated from other industries on the basis of capital intensity (Pan and Tse, 1996) and operational dependence (Shan, 1991). These factors may in turn affect the JV control arrangement and hence, individuals' perceptions about self-selection and socialization. Thus, controlling

for the possible bias from different organizations is needed (Harrigan, 1986; Au et al., 1997).

Second, to gain a high and reliable response to the survey, a critical factor in China where the solicitation of surveys is not seen as a legitimate form of information revelation (Adler et al., 1989; Scapens and Meng, 1993). This objective was obtained by confining the analysis to three branches of a U.S.–Sino JV and the office of its SOE partner, where responses could be received from all sub-unit managers matched across functions, and where some of the measures of the variables could be checked for consistency with the JV and SOE human resource policy. All 63 sub-unit managers were surveyed for their perceptions of self-selection, socialization practices, participation in budget setting, budget-based evaluation style, and reward structure. These responses were modeled in a framework that implicated entity (JV or SOE partner) self-selection and socialization as antecedents to the three formal budget control variables. The article is organized as follows. The first part delineates the framework and develops hypotheses for each entity setting. The second part outlines the research design and method. The third part presents the empirical results. The article concludes with a discussion of the findings.

## 1. Theory and hypotheses

### 1.1. Self-selection and Western socialization practices

#### 1.1.1. Self-selection

Self-selection refers to the choice by employees to work with a particular firm (Soeters and Schreuder, 1988). Self-selection differences are likely to exist between the two entities on two dimensions — the amount of *alternative job opportunities* and the level of *achievement motivation*. Given the transfer of knowledge of employment opportunities over time, it was expected that those sub-unit managers that remain in SOE either had less employment opportunities or less desire to pursue a more achievement-oriented position compared to their JV counterparts. Each dimension is discussed in turn.

First, sub-unit managers in the SOE and JV can be distinguished in terms of the number of alternative job opportunities they had before beginning with their current firm. The State Government allocated most of the SOE sub-unit managers after graduation from university; hence, very few alternatives existed. A number of sub-unit managers in the SOE have been at the same firm since leaving university. In contrast, most of the sub-unit managers in the JV had worked in at least one SOE since graduating from university. Hence, it was more likely that sub-unit managers had more alternatives before choosing to work for the JV.

Second, sub-unit managers in the SOE and JV can be distinguished in terms of the level of achievement motivation that would precipitate a move from working in a SOE

to a JV. Achievement motivation is defined in terms of manager esteem and self-actualization needs in Maslow's (1970) need hierarchy, and McClelland's (1961) need for achievement. Esteem and self-actualization (hereafter, achievement) needs relate to workers' desires for promotion, job enrichment and challenge, good company image, and monetary rewards. Safety and social needs relate to a desire to have a comfortable and secure work environment.

The level of achievement motivation was considered an important self-selection factor in the developing nation context, as capitalist-style management techniques (for example, budget responsibility and performance-based incentives) that appear first in foreign firms (headquartered in developed nations) appeal to a manager's need for achievement (Cherrington, 1989). It was expected that managers in the JV will indicate more strongly promotion, job enrichment and challenge, good company image, monetary rewards and opportunities for advancement, while their SOE counterparts will indicate a secure and comfortable work environment as more important reasons for working with the organization.

In the world of communism, the country has the responsibility to care for its people and SOEs are assumed to take this responsibility. Job positions in SOEs may be described as "iron bowl jobs" since SOEs rarely fire workers (Liu and Song, 1997). Employees expect SOEs to take care of all their social requirements such as accommodation, medical benefits, company coach transportation, daily living allowances for cooking oil, air-conditioning, and food. SOE employees expect such benefits regardless of their job performance. In short, SOEs are likely to give greater attention to worker safety and social needs.

Provision for safety and social needs also exists in the JV. Chinese legislature mandates the provision of labor unemployment insurance, medical allowances (or expense fund) by the foreign partner (see Article 11 of the Equity JV Labour Management Provisions). Other requirements exist at the local (province or county) level such as special subsidies for single-child families, transportation allowances in lieu of company coach, bath subsidy, housing, and price subsidies. However, such provisions were not as extensive as those in the SOEs. Instead, a greater emphasis on satisfying manager achievement needs was likely in the JV. On the basis of the foregoing discussion, the following hypotheses are proposed:

**H1.** *The level of self-selection-achievement motivation (H1.1) and self-selection-job alternatives (H1.2) will be higher in the JV compared with the SOE.*

### 1.1.2. Socialization practices

Socialization practices refer to the process by which the values of members are brought into line with those of the organization and include the use of expatriates, training programs, and visits to and from parent headquarters (Jaeger, 1983; Baliga and Jaeger, 1984; Egelhoff, 1984).

Recruitment selection criteria are also considered to be part of the socialization process (Pascale, 1985). A Western (as opposed to communist or socialist) orientation of socialization, which is consistent with the transfer and learning of Western management procedures, was emphasized. Differences in socialization practices were examined as opposed to outcomes of socialization. For the process of socialization, differences existed in the selection of managers, the use of expatriates, and the extent of training provided by both entities. The process of manager selection in the JV was more competency-oriented. Apart from transfers from the SOE partner, the JV had the right to select the appropriate staff externally. All functional managers in the JV were foreign expatriates, whereas local nationals filled all positions in the SOE. The expatriate managers in the JV provided a key socialization mechanism for the transfer of Western management techniques (for example, MCS) and technology through training and their involvement in the management control process (Firth, 1996).

Unlike the SOE, an extensive training program existed in the JV consisting of mainly technical and a little managerial training. The importance of training sub-unit managers in the JV was considered to be essential in view of the fact that a high employee turnover existed in the lower ranks of the JV. As part of informal relations between the JV and SOE, two sub-unit SOE managers were sent to the JV for a training day each month. Accordingly, it was expected that the level of socialization would be higher in the JV compared to the SOE.

**H2.** *The level of socialization practices will be higher in the JV compared with the SOE.*

### 1.2. Self-selection, socialization practices, and budget controls: a structural model

This part details the relationships between self-selection, entity, socialization, and formal budget controls — participation, budget-based evaluation, and reward structure. These relationships are depicted in a structural model (see Fig. 1). The purpose of the structural model is to test the relative importance of the first set of explanatory variables (self-selection and socialization), and the second set of explanatory variables (budget-based evaluation style and participation) in describing variations in the dependent variable (reward structure).

#### 1.2.1. Budget controls

This study focused on three formal budget control mechanisms, which have been extensively studied in the MCS literature — participation in budget setting, use of budget criteria in performance evaluation, and reward structure (Otley and Wilkinson, 1988; Merchant, 1989; Shields and Young, 1993; Fisher and Stress, 1995; Young and Lewis, 1995). Each of these controls matches three of the

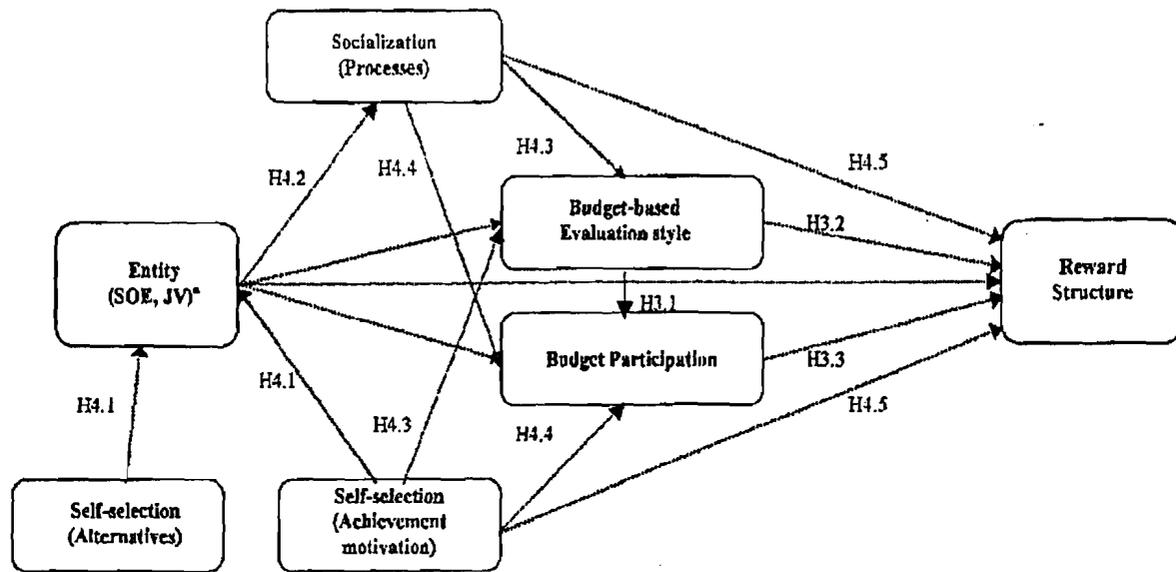


Fig. 1. The structural model — H3 and H4. (a) Dummy variable; SOE = 0, JV = 1.

major control functions: planning, evaluating, and rewarding, respectively (Otley, 1980; Flamholtz et al., 1985; Chow et al., 1997).

Shields and Young (1993) provided the initial guidance for the selection of two MCS variables (participation and reward structure) while a third variable (budget-based evaluation style) was added due to its extensive examination in the literature (see Briers and Hirst, 1990 for a review). Such variables have also been the subject of investigation in the Asian cultural context (Harrison, 1993; O'Connor, 1995; Chow et al., 1997) in which their association with Western approaches to management control have been emphasized. Budget participation refers to the frequency and perceived influence of budget-related consultations between senior and sub-unit managers in the study. Budget-based evaluative style refers to the extent to which sub-unit manager rewards (promotion, pay increases, job security) are determined by comparing budgeted to actual accounting-based performance measures (Chow et al., 1997). Reward structure refers to the extent to which manager monetary compensation varies in terms of their budget-based performance.

Taken together, budget-based evaluation style was expected to be an antecedent to budget participation as it provides rationale for seeking manager participation in the budget setting process (Briers and Hirst, 1990). Budget-based evaluation style also was expected to be an antecedent to reward structure as greater variability in monetary rewards are likely to follow from a higher emphasis on budget targets at the performance evaluation stage of the budgetary cycle. Similarly, participation in budget setting was expected to be an antecedent to reward structure (Shields and Young, 1993). Linkages between these three variables are supported in agency

theory (Demski and Feltham, 1978; Shields and Young, 1993). Based on the foregoing discussion of formal control mechanisms, the following hypotheses are formulated:

**H3.** *There will be a positive relationship between budget-based evaluation style and participation (H3.1), budget-based evaluation style and reward structure (H3.2), and participation and reward structure (H3.3).*

#### 1.2.2. Self-selection and socialization

Self-selection was described earlier in terms of the number of job alternatives and achievement orientation. Self-selection is expected to reflect preferred attributes of the organization a manager has chosen to work for. As such, it is treated as an antecedent variable to entity in the structural equation model. Socialization was described in the previous section as a Western concept that entails extensive training and coaching in the organization by more experienced managers. The aim is to condition managers in the ways of the organization. As Western socialization is likely to be initiated by the JV (rather than the SOE), we expect entity to be an antecedent to socialization. As discussed in the previous section, higher level of socialization is expected in the JV (H2). In terms of the structural model, it follows that the relationship between entity and socialization would be positive (higher for the JV).

Furthermore, Chinese managers with greater achievement motivation and/or who are more extensively socialized (in capitalistic ways) are more likely to agree with the Western game of budget control (Redding and Hsiao, 1990; Vance et al., 1992). Therefore, within each organization, the level of self-selection (achievement orientation)

and socialization was expected to vary positively with the use of participation in budget setting, budget criteria in performance evaluation and reward structure. In both entities, the level of socialization is likely to reflect the use of formal budget controls. Hence, it is expected that there will be a positive relationship between manager self-selection (achievement orientation) and/or socialization practices and the use of formal budget controls in both entities. On the basis of the foregoing discussion, hypotheses are delineated as follows:

**H4.** *There will be a positive relationship between self-selection and entity (H4.1), entity and socialization (H4.2). There will also be a positive relationship between both self-selection and socialization and budget-based evaluative style (H4.3), participation (H4.4) and reward structure (H4.5).*

## 2. Research design and method

### 2.1. Research settings

The U.S.-Sino JV and SOE partner examined in this study operate in the advertising industry. The PRC currently has an estimated 20,000 advertising agencies of which a small percentage are full-service agencies (Media, 1997). In Shanghai for example, about 10% of the 2800 advertising agencies are full-service agencies. Likewise, both the SOE and JV examined in this study are full-service agencies. Established in 1962, the SOE is the largest and one of the most prestigious advertising agencies in the PRC with exclusive agency rights in many parts of China. The SOE was the agent in the PRC for more than 200 foreign advertising companies before the PRC opened up its market in 1990. A number of foreign brands have been handled by this SOE. The number of

staff has increased from 120 at establishment to the existing 480.

The foreign partner is one of the world's leading marketing communication groups. The group's network consists of 356 offices in 53 countries. None of their competitors can match either the depth or breadth of their services overseas. In Southeast Asia, they are the market leader, providing a full range of services in 14 countries. The group entered into a JV with the SOE in 1992 in order to provide on-the-spot service to clients moving into the PRC. The main JV operations are located in Shanghai, while branch offices are located in Guangzhou and Beijing. A total of 330 staff are employed across these three offices.

Organizational structure (centralization/decentralization) features as a predominant factor in the Western literature on control system design (Bruns and Waterhouse, 1975; Merchant, 1981; Zimmerman, 1997). As such, the structure of both entities is briefly described. The foreign partner held 51% equity and most of the aspects of the foreign parent control system were transferred to the JV. This included budgeting and performance evaluation schemes, along with the financial reporting system. Decentralization was higher in the JV compared to the SOE as evidenced by the greater amount of decision-making authority given to sub-unit managers in the JV. For example, authority to approve client project budgets and manage project expenses was held by sub-unit managers in the JV and by more senior managers in the SOE. A descriptive summary of each entity is presented in Table 1.

### 2.2. Data collection

Data collection proceeded in two phases. In the first phase, items that comprised the measuring instruments were chosen with reference to the literature and on the basis of three pre-survey interviews. Phase two consisted of the survey of all sub-unit managers across the two entities.

Table 1  
Firm profile for the JV and SOE

	JV	SOE
Set up in year	1992	1962
Ownership	51% Foreign equity-owned; 49% SOE equity-owned.	100% government-owned.
Number of staff	330	480
Nature of business	Full-service advertising agent for international clients	Full-service advertising agent for local and international clients
Location	Branch offices in Shanghai, Beijing and Guangzhou	Holding company mainly in Shanghai
Reputation in the PRC	Good creative reputation in Shanghai and Guangzhou	Has been the exclusive advertising agent for the PRC; evaluated as the strongest advertising company in the PRC in 1994
Organizational structure	General Manager (foreign) Six Department Managers (foreign) Departments: Media, Marketing, Production, Human Relations, Creativity and Finance	General Manager (local) Seven Department Managers (local) Departments: International Trade, Media, Marketing, Production, Commune Relations, Creativity and Finance
Survey respondents	Sub-unit managers	Sub-unit managers

### 2.2.1. Pre-survey interviews

Three pre-survey interviews (1 h each) with the financial controller of the Hong Kong office of the foreign JV partner provided guidance for the items included in the various measures and revealed the nature of the variability of the measures at the individual level. For self-selection, pre-survey interviews revealed a number of reasons on why employees worked for the JV and SOE. These were: promotion, job enrichment and challenge, company image, monetary, housing and non-monetary benefits, a comfortable and secure work environment. These items subsequently became items against which sub-unit managers were asked the extent to which each reason was important in working for their company. Pre-survey interviews also revealed that employees in both entities may have had different opportunities to choose the organization (foreign or local) with which to work for. Also, employees may have selected an entity (JV or SOE) but *ex post*, they were unhappy with their choice. For example, many of the employees transferred over from the SOE subsequently requested and obtained a transfer back to the SOE partner. Hence, we developed another two items to measure the amount of alternatives respondents had and whether they would make the same entity choice if they were to leave their current employing entity.

For socialization, pre-survey interviews confirmed that the five items chosen represent the socialization practices in place with the JV and to a lesser extent in the partnering SOE. For example, basic training, skill development, and understanding the firm's purpose and performance reward orientation were emphasized in the JV. These aspects are reflected in the five items chosen for the measure.

For the budget control system variables, the interviews revealed that sub-unit managers have frequent communication with their functional managers who are intended to identify ways to improve performance, to establish performance standards, and to monitor performance relative to budget goals. Budget goals typically are set for sales revenue in profit centers (media, marketing, production, and international trade) and for operating costs in cost centers (other departments). While these goals typically are participatively set (*participative budgeting*) and are applied to departments or teams of managers, they are an important part of the information set that is used to evaluate and reward individual sub-unit managers as well. Although the setting of budget goals involves several parties (e.g., human resource management, top management) besides the subordinate managers, these other parties have much less influence on and involvement with budget goal setting.

Similarly, performance evaluation took into account several factors (e.g., relationship with peers and superior, attention to quality and customer service, achieving budget goals) and is likely to vary from function due to different superiors (functional manager) and responsibilities of each function (human resource management guidelines). Therefore, the nature of performance evaluation style is likely to

vary from function to function. Finally, both monetary packages varied according to achievement of monthly targets within each function. While these sub-unit managers receive bonuses that are determined by several factors (e.g., team and division performance) and by several types of employees (e.g., superiors and human resource management), an increasingly important determinant of these bonuses is individual performance relative to the budget goals (reward structure). That is, there is a positive correlation between a sub-unit manager's individual-level performance relative to the budget goals and his or her bonus.

### 2.2.2. Survey of sub-unit managers

Local Chinese sub-unit managers working in a state-owned advertising agency and its JV with a major U.S. advertising agency were the sample respondents for this study. Support by way of sponsoring letter was obtained from the chief financial controller in the Hong Kong representative office of the foreign partner. We ensured anonymity in order that the Chinese managers would be more willing and more likely to provide accurate information (Adler et al., 1989). Survey questionnaires (in Chinese) were distributed to all 30 Chinese sub-unit managers in the SOE (Shanghai) and all 33 Chinese sub-unit managers in three offices (Guangzhou, Shanghai, and Beijing) of the U.S.-Sino JV. All 63 questionnaires sent to the Sino-U.S. JV (33 questionnaires) and the SOE (30 questionnaires) were completed and returned for a 100% response rate. Subject demographics are included in Table 2. The main difference observed from the subject demographics was that the managers in the SOE had been in their current position on average longer than their JV counterparts. This was not surprising in that the SOE had been in existence for a significantly longer period of time than the JV.

### 2.3. Threats to validity and countermeasures

The measurements of data used for analysis in this study were based on self-report by a single source at one time; hence, correlations among the various measures may be systematically contaminated by any defect in that source

Table 2  
Subject profile for the managerial groups

	JV (n = 33)	SOE (n = 30)
Nationality: Chinese	33	30
Education:		1 missing
China (Overseas)	30 (3)	29
College degree:	2 missing	2 missing
<Bachelor degree	5	5
≥Bachelor degree	26	23
Years in your present position:	3 missing	1 missing
Average	1.4 years	2.9 years
<2	18	7
2	8	12
4	4	6
>4		4

(Campbell and Fiske, 1959). However, often reliance on a single source may be the only realistic way to get the information desired (Parkhe, 1993). To deal with the problem of *artifactual covariance*, we used two of the several statistical and procedural remedies available — post-survey interview data and factor analysis (Mackenzie et al., 1991; Hill et al., 1992).

2.3.1. Post-survey interview data

Post-survey interviews were conducted to check the validity of measures in the survey. Interviews with the financial controller were undertaken by one of the co-authors in both the JV and SOE, lasting 3 h each. To ensure the accuracy of the data, numerous checks were conducted by which the interviewees verified the interviewer's notes (Lincoln and Guba, 1985). Archival data obtained from each organization included organizational charts and standard operating procedures. Specific details of data collected relating to the variables in this study are given in Table 3. Convergence of the survey measures of self-selection and socialization with the interview data across the two entities provided the first test of construct validity. For example, the greater amount of training and the more extensive employment of younger non-SOE partner employees in the JV was consistent with the higher mean survey scores of socialization and self-selection (achievement orientation), respectively (see Table 5).

2.3.2. Factor analysis

The second check involved Harman's (1967) single-factor test. Podsakoff et al. (1984) and Parkhe (1993) have

used this test more recently. Parkhe (1993) notes that the assumption underlying the test is that if a substantial amount of common method variance exists in data, a single factor will emerge from factor analysis when all variables are entered together. In this study, the results of an unrotated factor analyses revealed multiple factors, suggesting that the common method variance did not exist.

Table 4 reports the rotated (varimax) factor structure with separate factor loadings for most of the variables. For example, the single item used to measure self-selection (job alternatives) loaded onto the sixth factor while the four items relating to achievement-oriented reasons for working in the entity loaded onto the third factor, hence supporting the separate theoretical conceptualizations of the two self-selection constructs. Further analysis on a separate entity basis provided support for their summation. The items comprising the socialization measure loaded across two factors (5 and 6) separate from self-selection (achievement motivation) which partially supported the separate self-selection and socialization constructs. For budget control, three separate factors were obtained (factors 1, 2 and 4).

However, a number of anomalies were found. The second item for socialization cross-loaded with self-selection while the two items (third and fourth) for budget-based performance evaluation cross-loaded with participation. These items were dropped from two construct measures for a cleaner factor structure. The structural model was rerun with the new summated scales (four items for socialization) and (three items for budget emphasis) and the results were unchanged.

Table 3  
Self-selection, socialization practices and reward structure of sub-unit managers: post-survey interview data

JV	SOE
<i>Reward structure</i>	
Rb 10,000–12,000 per month.	Rb 4000–5000 per month (plus housing).
Sabbatical leave for overseas education.	Non-monetary consumables (e.g., overseas trips for some sub-unit managers).
<i>Performance evaluation</i>	
Performance to target is evaluated annually.	Performance to target is evaluated monthly.
2–3 months bonus based on annual performance.	Monthly bonus based on achievement of monthly targets.
<i>Self-selection</i>	
(a) <i>Alternative opportunities of employment</i>	
Many alternative employment opportunities. Sub-unit managers have worked in other SOE since graduation.	Few alternative employment opportunities. Upon graduation, employees are allocated by the State Government to work in the SOEs.
(b) <i>Motivation/expectations</i>	
Sub-unit managers value monetary rewards and opportunities for advancement. Staff could be fired if poor performance. Most of the JV sub-unit managers were transferred from outside the SOE.	Sub-unit managers value having a secure and comfortable work environment. SOEs owe social responsibility to employees. SOE employees would prefer to go to the JV if there was housing allowance.
<i>Socialization practices</i>	
Monthly training provided for JV employees. Frequent on the job training by foreign superiors.	No specialized training in-house. Two managers are sent to the JV for one training day per month.

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Table 4  
Factor analysis of self-selection, socialization and budget control variables

	First factor	Second factor	Third factor	Fourth factor	Fifth factor	Sixth factor
<i>Budget participation</i>						
(1) The extent to which input is sought from you in the budget setting process	0.87					
(2) The importance placed on budget changes that are suggested by you	0.83					
(3) The importance placed on not finalizing the budget until you are satisfied with it	0.62					
(4) What is the overall influence you have in setting the budget	0.81					
<i>Budget-based evaluation style</i>						
The extent to which budget goals are used to evaluate your performance for the purposes of:						
(1) Advancing your career (promotion)		0.77				
(2) Increasing your bonus salary		0.88				
(3) Increasing the recognition that you receive		0.41				
(4) Increasing the responsibilities given to you		0.37				
(5) Overall reliance on budget goals in rewarding your activities		0.71				
<i>Budget-based incentives</i>						
(1) Rewards are tied to an accounting earning measure (e.g., return on equity, operating earnings, net income before tax)				0.61		
(2) The extent to which compensation contracts clearly specify how compensation is related to your performance relative to your unit's budget				0.55		
(3) The extent to which managers whose units' performance relative to their budgets are among the top 25% are given larger financial rewards than those given to unit managers among the bottom 25%				0.81		
<i>Reward structure</i>						
What is the percentage of your annual compensation that is variable (Contingent) on your UNIT or FIRM PERFORMANCE?				0.76		
<i>Self-selection</i>						
(a) The extent to which you had many companies to choose from, when you joined this company?						0.64
(b) Why did you choose to work for this company?						
(1) Opportunity for promotion and advancement			0.78			
(2) Job enrichment and challenge			0.59			
(3) Company image as a SOE or JV			0.61			
(4) Monetary rewards			0.80			
<i>Western socialization: the extent to which each of the following practices are true of your company</i>						
(1) Employees receive at least 1 week of intensive training						0.62
(2) New hires work long hours, are exposed to intensive training of considerable difficulty and/or perform relatively menial tasks in the first few months						0.79
(3) Reward systems, performance incentives, promotion criteria and other primary measures of success reflect a high degree of congruence					0.65	
(4) Virtually all employees can identify and articulate the firm's shared values (i.e., the purpose or mission that ties the firm to society, the customer or its employees)					0.86	
(5) Employees frequently make personal sacrifices for the firm out of commitment to the firm's shared values					0.78	
% of variance explained	27.80	15.84	8.98	8.23	6.41	4.95
Eigenvalue	6.39	3.64	2.07	1.89	1.47	1.14

Table 5  
Descriptive statistics and independent *t*-test comparisons between the JV and SOE samples

Variable	JV				SOE				Univariate tests		
	Range	Mean	(SD)	alpha	Actual range	Mean	(SD)	alpha	Actual range	<i>t</i>	<i>p</i>
<i>Selection and socialization</i>											
Self-selection — alternatives (one item)	1-7	4.53	(1.50)		1-7	3.72	(1.53)		1-6	-2.08	0.040
Self-selection — motivation (four items)	4-28	20.84	(4.25)	0.71	7-28	18.36	(4.28)	0.76	8-25	-2.18	0.033
Socialization (five items)	5-35	24.15	(4.77)	0.65	14-34	20.47	(5.02)	0.66	12-32	-2.99	0.004
Next job will be in											
JV		5.25		JV or WOS		4.24		JV = WOS			
WOS		5.60		>SOE		4.17		= SOE			
SOE		2.11				4.10					
<i>Management control framework</i>											
Participation (four items)	4-28	12.82	(6.53)	0.85	4-25	17.47	(4.81)	0.85	4-28	3.24	0.002
Budget-based evaluation (five items)	5-35	17.69	(8.18)	0.76	5-33	20.67	(4.68)	0.89	10-30	1.75	0.090
Reward structure (one item)	1-7	3.52	(2.58)		1-10	2.67	(1.47)		1-6	-1.49	0.145

## 2.4. Variable measurement

### 2.4.1. Self-selection and socialization variables

*Self-selection* comprised two parts — degree of achievement motivation and the number of alternative positions available at the time of selecting their current position. *Achievement motivation* was measured using seven items; each anchored on a seven-point Likert scale. Respondents were asked to rate each item using a Likert scale, from 1 (not important) to 7 (very important). Of these, promotion, job enrichment and challenge, company image, and monetary benefits were considered to be achievement motivation factors. The four items were summed for an achievement motivation score. The number of alternative positions available was measured by asking respondents to state whether they had many alternatives to choose from when they joined their company. A greater number of alternatives indicated a stronger self-selection bias towards their current employing entity. Equally important was the measure of ex post self-selection. Respondents were also asked, if they were to leave their position, what would be their willingness to join a: (i) JV? (ii) wholly foreign-owned company?, or (iii) SOE? The items that comprise both these questions were each anchored on a seven-point Likert scale from "extremely low" to "extremely high". A preference for working with the same type of firm (JV, SOE or fully owned foreign subsidiary) would indicate some degree of self-selection or socialization towards their current employing entity.

*Socialization activities* were measured using five items of the 15-item instrument developed by Pascale (1985) and used by Chow et al. (1997). Using a seven-point Likert scale, ranging from not true to very true, respondents were asked the extent to which employees receive at least 1 week of intensive training, new hires work long hours, are exposed to intensive and difficult training, reward systems reflect a high degree of congruence, employees understand the firm's shared values, and employees frequently make

personal sacrifices for the firm out of commitment to the firm's shared values.

### 2.4.2. Budget control system variables

*Budget participation* was measured using the four-item instrument developed by Shields and Young (1993). These items refer to the extent to which input is sought in the budget setting process, the importance placed on changes suggested by responding managers, the importance placed on not finalizing the budget until responding managers are satisfied with it, and the overall influence managers have in setting the budget. Responses were anchored on a seven-point Likert scale from extremely low to extremely high. All four items were summed for a combined participation score.

*Budget-based evaluation style* was measured using the instrument developed by Chow et al. (1997). This instrument sought responses to the question: What is the extent to which budget goals are used to evaluate your performance for the purposes of: (1) "Advancing your career," (2) "Increasing your bonus salary," (3) "Increasing the recognition that you receive," (4) "Increasing the responsibilities given to you," and (5) "Overall reliance on budget goals in rewarding your activities." Responses were anchored on a seven-point Likert scale from extremely low to extremely high.

*Reward structure* was measured by response to the question: What is the percentage of your annual compensation that is variable on your unit performance? 0%, 5%, 10%, 15%, 20%, 25%, 30%. If more than 30% please specify? The responses were coded from 1 (5%) to 7 (more than 30%). The responses were subsequently checked for validation with responses to three questions used by Shields and Young (1993). Responses were sought to the question: What is the extent to which: (1) rewards are tied to an accounting earning measure (e.g., return on equity, operating earnings, net income before tax), (2) compensation contracts clearly specify how compensation is related to your performance relative to your unit's budget, and (3)

Table 6  
Budget communication

What is the frequency of management initiated budget-related discussions with divisional and sub-unit managers?	JV (n = 33)		SOE (n = 30)	
	Frequency	Percentage	Frequency	Percentage
Weekly	9	27.30	10	33.30
Monthly	3	9.10	4	13.30
Quarterly	5	15.20	5	16.70
Bi-annually	10	30.30	9	30.00
Annually	2	6.10	2	6.70
Missing	4	12.10		
	33	100.00	30	100.00

managers whose units' performance relative to their budgets are among the top 25% are given larger financial rewards than those given to unit managers among the bottom 25%. We found that the subjects rating on the single-item scale was highly correlated with the three item reward structure measure ( $r = 0.58$ ). In order to mitigate the presence of artifactual covariance, the first scale was used in the analysis since the anchors were specific and distinct from the more general Likert scale used to measure participative budgeting and budget-based performance evaluation.

#### 2.4.3. Other variables

Other variables were measured for the purposes of further describing the research setting. *Frequency of budget-related communication* was measured using a single question: How frequently does central management initiate budget-related discussions with you and other divisional managers? The response was anchored on a five-level scale — Weekly, Monthly, Quarterly, Bi-annually, and Annually. *Education level* was measured according to the following categories of education: secondary, diploma, bachelor degree and higher degree. *Number of years spent in your current position* was measured using a single six-item Likert scale, ranging from less than 2 years to more than 20 years.

#### 2.5. Reliability testing

Cronbach (1951) alpha coefficients were calculated for each set of items comprising the measured variables (see

Table 5). For most of the variables (except socialization), the coefficient was greater than 0.70 which is a generally accepted benchmark (Carmines and Zeller, 1979). As noted earlier under factor analyses, the inclusion of a four-item socialization measure in the model left the results unchanged. The alpha reliability score for the four-item socialization measure was 0.76 and 0.77 for the JV and SOE samples, respectively, which was acceptable.

Of the variables implicated in the MCS framework, only participation was found to be significantly different between the two entities. The higher level of participation among the SOE sample may be due to the heavy involvement of the staff union in the daily management of the SOE. According to the PRC Labor Law, staff unions must be formed and must participate in staff issues associated with day-to-day management (Ho, 1990). These rules have existed in SOEs for years but were not strictly followed by JVs. Table 6 provides some descriptive data of the frequency of management initiated budget-related discussions with divisional and sub-unit managers. The results indicate that discussions are initiated on a same frequency level (equally spread across weekly, monthly, quarterly, bi-annually and annually) across both entities. While a greater degree of delegation was undertaken in the JV compared to the SOE, budget communication existed in both entities and varied across managers. Table 7 details the correlation coefficients between the variables. Significant inter-item correlation existed between participation and budget-based evaluation

Table 7  
Correlations for separate entity samples

SOE (n = 30)	JV (n = 33)					
	$X_1$	$X_2$	$X_3$	$X_4$	$X_5$	$X_6$
Participation $X_1$		0.67**	0.16	0.12	0.02	0.02
Budget-based evaluation $X_2$	0.33		0.33	0.33	0.34	-0.13
Reward structure $X_3$	0.03	0.24		0.35	0.38	-0.31
Socialization $X_4$	0.26	0.37*	0.31		0.55**	-0.10
Self-selection (motivation) $X_5$	-0.22	0.36	0.30	-0.06		-0.02
Self-selection (alternatives) $X_6$	-0.12	-0.03	-0.17	-0.03	-0.25	

\*\*  $p < 0.01$ .

\*  $p < 0.05$ .

style, and between socialization and self-selection (motivation) for the JV, while a significant correlation existed between socialization and budget-based evaluation for the SOE. However, no significant difference was found in these relationships across the two entities. The lack of significant correlations between reward structure and other budget control variables provided further evidence of the absence of artifactual covariance.

### 3. Empirical results

#### 3.1. Descriptive statistics

Table 5 provides a summary of the means (standard deviations) of the variables. As expected, the level of self-selection and socialization was significantly higher in the JV in all respects. Hence, H1 and H2 are accepted. Self-selection comprised two parts — the number of job alternatives (H1.1) and the degree of achievement-based reasons for working in the company (H1.2). The amount of job alternatives for JV sub-unit managers was significantly higher ( $t = -2.08, p < 0.04$ ) than their SOE counterparts. Thus, H1.1 is accepted. Similarly, for the *next job preferred*, there was a significant non-preference among JV managers to work in another SOE compared to a JV or wholly owned foreign subsidiary. SOE managers on the other hand indicated similar preferences for a JV, a wholly owned foreign subsidiary or another SOE. Finally, the mean level ( $t = -2.18, p < 0.03$ ) of achievement-based reasons for working in the company was significantly higher for the JV sample. Thus H1.2 is accepted.

In terms of the ranking of preferences, the least desired reason for staying was housing and non-monetary benefits (mean = 4.52) for the JV managers and promotion (mean = 3.62) for the SOE managers (see Table 8). The low expectation of promotion in the SOE is consistent with the finding in Shenkar and Ronen (1987). Since promotion hardly resulted in more authority and autonomy (Laaksonen, 1984) and brought only meager financial rewards, it became a negligible goal to employees in SOEs in the PRC. The low importance of promotion may also reflect a fear

that in a politically volatile environment, initiative may be risky. This fear may have serious repercussions for the current drive in the PRC to promote young managers to positions of authority.

*Socialization practices* ( $t = -2.99, p < 0.04$ ) were found to be significantly higher for the sub-unit managers in the Sino-U.S. JV than for those of the SOE. Hence, H2 is accepted. These results indicate that capitalist values associated with achievement motivation and training may be more prevalent in the JV compared to the SOE. Self-selection and socialization practices appear to be weaker among SOE managers, a result also supported by their indifference towards working in the three types of entities (see Table 4 for response to the question: Next job will be in, JV, wholly owned subsidiary, or SOE).

#### 3.2. Structural equation model

Univariate testing is likely to overstate the relation between certain variables due to the problem of multicollinearity. To cater for this effect, a multivariate analysis called Linear Structural Relationship (LISREL) analysis was conducted. LISREL analysis allows the simultaneous estimation of multivariate relationships and is particularly useful when a number of relationships are being tested that implicate the same independent variables. In this study, a path rather than a measurement model was tested using LISREL 8 for DOS (Joreskog and Sorbom, 1993). The measurement model tests for the fit of the covariance between measured items, their latent constructs, and the covariance between the latent constructs. The path model is a reduced form of the measurement model whereby relationships are tested between the actual measured constructs and hence, is particularly useful where the sample size is small.

The path coefficients generated by LISREL provide information about the relative importance of the first set of explanatory variables (in this case, self-selection and socialization), and the second set of explanatory variables (budget-based evaluation style and participation) in describing variations in the dependent variable (reward structure). The LISREL program estimates the parameters of the model

Table 8  
Ranking of motivations for working in each entity

Why did you choose to work for this company?	JV		SOE		Univariate tests	
	Mean score	Ranking of mean	Mean score	Ranking of mean	<i>t</i>	<i>p</i>
<i>Ranking of preferences</i>						
Opportunity for promotion and advancement.	4.53	6	3.62	7	-2.27	0.030
Job enrichment + challenge	5.90	1	5.17	3	-2.56	0.010
Company image	5.45	2	5.23	1 <sup>a</sup>	-0.57	0.570
Monetary	4.97	3	4.53	4	-1.22	0.230
Housing and non-monetary benefits	4.52	7	4.27	6 <sup>a</sup>	-0.60	0.550
Comfortable work environment	4.55	5	4.30	5	-0.71	0.480
Secure work environment	4.63	4	5.17	2 <sup>a</sup>	1.46	0.150

<sup>a</sup> Difference in ranking in terms of greater preference indicated by SOE manager.

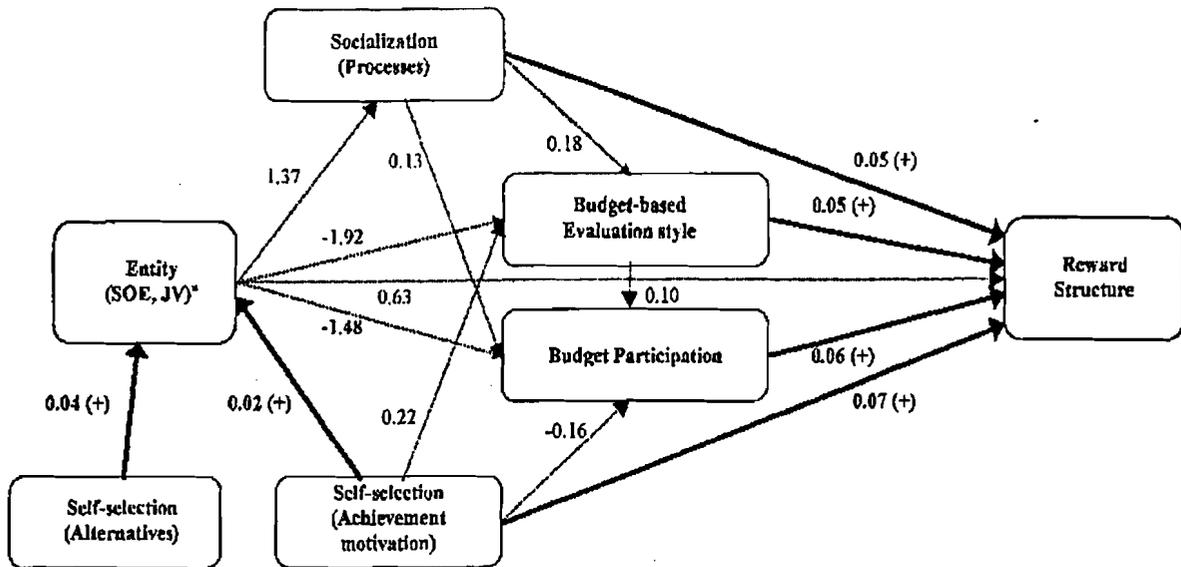


Fig. 2. The structural model — results. (a)  $p$  level (sign) displayed (two-tail test). Significant relationships in bold. (b) Dummy variable; SOE = 0, JV = 1.  $\chi^2$  with 5  $df$  = 6.18 ( $p$  = 0.29). GFI = 0.97, Adjusted GFI = 0.82, CFI = 0.98, IFI = 0.99.

from the covariance matrix. The dependent and independent variables are defined prior to running the program procedure. Entity (JV or SOE) was incorporated into the analysis to control for variance that may be associated with the different levels of the self-selection, socialization, and participation variables.

The model derived from LISREL is shown in Fig. 2. The maximum-likelihood procedure was used to estimate the paths and fit indexes. The model had a satisfactory fit to the data as evidenced by a goodness-of-fit index (GFI) of 0.97 (adjusted GFI = 0.82). These indexes, however, have been found to be sensitive to sample size and the number of constructs (Anderson and Gerbing, 1984; Bollen, 1989), so further tests as suggested by Bollen (1989) were undertaken: a comparative fit index (CFI) and incremental fit index (IFI). The value of CFI and IFI for concluding that the hypothesized model is not significantly different from the sample data is 0.90 (Bagozzi and Yi, 1988; McDonald and Marsh, 1990). A CFI of 0.98 and an IFI of 0.99 was obtained indicating the model has satisfactory fit.

### 3.3. Hypothesis tests

The arrows (in bold) indicate the significant relationships obtained. A review of the LISREL model provides partial support for H3 and H4. The results for H3 indicate that budget-based evaluation style is a significant determinant of reward structure (H3.2), but not participation (H3.1). Similarly, participation is a significantly related to reward structure (H3.3). The results for H4 indicate that self-selection is significantly ( $p < 0.05$ ) related to entity (H4.1). This and the significant results for H1 provide support for the argument that self-selection (alternatives and achievement motivation)

is a significant antecedent to entity. H4.2 proposed that entity would be significantly related to socialization. While a significantly higher level of socialization was found for the JV (H2), the path relation in the model was not significant. Finally, the level of self-selection and socialization were found to be significantly related to reward structure (H4.5), but not related to budget-based evaluation style (H4.3) or participation (H4.4). While self-selection was a significant determinant of entity, none of the relationships specified indicated that entity (SOE or JV) was a significant determinant of the budget control variables.

## 4. Discussion and conclusion

The antecedents and design of formal budget controls systems in organizations in China are worthy of study due to the challenge facing foreign and local managers of enhancing employee performance. The purpose of this study is to: (i) advance our understanding of whether the level of self-selection and Western socialization is different in a U.S.–Sino JV and its SOE partner; and to (ii) determine whether manager self-selection (achievement motivation) and socialization (capitalist training and indoctrination processes) are related to the use of formal budget controls across both entities. This study proposed and tested four sets of hypotheses in a theoretical model consisting of entity, self-selection, socialization, budget-based evaluation, budget participation and reward structure.

The significance of the individual paths and the overall fit of the model confirmed the tests of the hypotheses. Self-selection was found to be a significant determinant of entity, while the entity was not found to be a significant determinant of socialization processes. However, a significant path

was obtained for the relationships between both self-selection and socialization and reward structure. These results indicate that self-selection orientation of managers is different between the entities, and that the presence of socialization processes may be a significant co-determinant with the more formal control mechanisms faced by respondents in both entities.

The non-significant result for entity, as an antecedent to the controls in the model, may be a function of the industry — advertising — where integrated learning and innovation are paramount to remaining competitive for both the JV and SOE partner. For example, in a study of the nature of technology and the process of its transfer in five services industries from parent companies to foreign affiliates, Grosse (1996) found that advertising agencies are the most 'top-heavy' industry in staffing, with almost one manager or officer per staff member in their offices; relied more on joint provision of the service between the home office (or other affiliates) and demonstrated greater linkages between the home office and affiliate in the development and provision of the service (and greater emphasis on training of their officers).

Important advances of this study are the identification of self-selection and socialization as important factors in the design of the MCS. Of the variables implicated in this study, socialization processes (Firth, 1996) and participation in budget setting (Shields and Young, 1993) are likely to play an important role in intensive learning and innovation. The findings generally indicate that self-selection (job alternatives, achievement motivation) and socialization processes are likely to be essential considerations in the transfer of formal budget controls to entities in the China context.

Given the importance of the issues addressed in this study, much more research is needed to refine, verify, and extend our investigation. Like all empirical studies, this study has limitations that must be considered in drawing implications from its findings. An important limitation is that the study focused on two legal entities in a single industry (advertising), one SOE and three offices of a U.S.-Sino JV, so the generalizability of the results are limited. Hence, conclusions would be more generalizable if more entities were included in the survey sample. Beyond these refinements, future research is needed to expand the scope of investigation to augment the mass of literature on mode of entry and governance of foreign direct investment in China. The model proposed in this study only has a limited number of antecedent and control system variables. Other control mechanisms, such as physical, bureaucratic (Simons, 1987; Roth et al., 1991), and financial controls (Firth, 1996) could be included to expand the scope of the MCS in place.

## 5. Uncited reference

Pratt and Beaulieu, 1992

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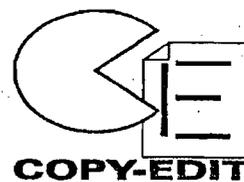
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1. Uncited references: This section comprises references which occur in the reference list but not in the body of the text. Thank you.
2. Please supply location of publisher for A Statistical Survey in China, 1996.
3. Please provide possible page(s) for the bibliographic entry "Young and Lewis, 1995."
4. People's Republic of China was captured as country for Ogilvy & Mather Advertising.
5. Second occurrence of Table 7 was changed to Table 8.

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