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Cultural Influences on German versus U.S. Management Accounting Practices

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BEFORE IMPLEMENTING GERMAN MANAGEMENT ACCOUNTING PRACTICES, U.S. COMPANIES NEED TO FACTOR IN THE CULTURAL DIFFERENCES BETWEEN THE TWO COUNTRIES.

EXECUTIVE SUMMARY: Several recent journal articles have advocated using German management accounting practices to improve U.S. management accounting systems. It is certainly a good idea for U.S. organizations to consider management accounting models used successfully in other nations and vice versa, but management accounting systems are likely to differ from country to country in some degree due to varying national cultural and other factors. Cultural factors are a part of the cost-benefit considerations that should underlie all management accounting choices. By discussing some studies of national culture and accounting subculture that have proved useful in understanding variations in financial accounting practices in different countries, this article helps explain the differences between U.S. and German management accounting practices and shows that, given the differences, employing German management accounting practices is not necessarily the solution in the United States.

A number of articles in the recent accounting literature have lauded German management accounting practices as successful models for use in the United States. Some suggest that U.S. companies should look to these practices for ways to improve on what are claimed to be deficient U.S. management accounting systems.[1]

One noted factor about the long-term success of German management accounting systems, Grenzplankostenrechnung (GPK), is the possible impact of "German culture and practices."[2] For example, Kip Krumwiede notes that the Chrysler side of DaimlerChrysler does not use GPK even though the Daimler segment does, attributing it to the fact that Chrysler has the typical U.S. culture that does not value the high level of detail found in GPK systems.[3] In this article, I will discuss how national cultural differences between the United States and Germany are likely to affect the degree to which management accounting practices can be transferred between the two nations. To do this, I will cite cultural studies that have proved useful in understanding variations in financial accounting practices in different countries.

National Culture and Financial Accounting

In a seminal study of national culture, Geert Hofstede analyzed survey data on the values of IBM employees in its subsidiaries in more than 50 countries and identified four major types of national societal/cultural characteristics: individualism vs. collectivism, power distance, uncertainty avoidance, and masculinity vs. femininity (he later added a fifth, long- vs. short-term orientation).[4] Hofstede considered culture to be *"the collective programming of the mind that distinguishes the members of one group or category of people from another."*[5]

Sidney Gray extended Hofstede's national cultural characteristics to four proposed categories of financial accounting subcultural values that help to determine the authority (professionalism vs. statutory control), enforcement (uniformity vs. flexibility), measurement (conservatism vs. optimism), and disclosure (secrecy vs. transparency) aspects of financial reporting systems adopted by different nations.[6] Gray used the results of Hofstede's statistical analysis of cultural values to identify the financial accounting subcultural value categories for each country.

Gray's classification helps to explain why countries adopted their financial reporting systems. For example, German society prefers enforced uniformity instead of flexibility in the external financial accounting practices used by companies in the nation. This preference can be seen in conformance to legal and tax requirements.[7] Gray's analysis links this preference largely to Hofstede's findings that German citizens have a low tolerance for uncertainty (strong uncertainty avoidance) and only a moderate leaning toward self-interest (individualism) dominating their actions rather than group interest (collectivism).[8] Of course, the financial accounting harmonization efforts of the International Accounting Standards Board (IASB), European Union, the Financial Accounting Standards Board (FASB), and other bodies are impacting the current and future direction of financial reporting practices in Germany, the United States, and elsewhere. These ongoing harmonization efforts are illustrated by the FASB's and IASB's recently published Memorandum of Understanding "that reaffirms the boards' shared objective of developing high quality, common accounting standards for use in the world's capital markets."[9]

National Culture and Management Accounting Practices

Although the influence of national culture norms and accounting subcultural values on accounting preferences and practices are usually considered in the context of external financial reporting, it is likely that they also can partly explain management accounting differences between countries such as the United States and Germany. Ongoing international and regional accounting harmonization efforts are less likely to have an impact on management accounting than on external financial reporting practices in these two nations and elsewhere.

Variations in the national cultural characteristics between the United States and Germany will lead to differences in the approach to management accounting. When comparing the two countries, one key cultural difference is uncertainty avoidance. Germany is classified as a strong uncertainty avoidance (SUA) country with a low tolerance for uncertainty, while the United States is considered to be a weak uncertainty avoidance (WUA) nation with a high tolerance for uncertainty. Naturally, this leads to managers from the respective countries wanting different types of results from their management accounting systems.

Table 1 matches workplace traits that Hofstede associates with SUA countries with German management accounting features that logically seem to be linked to them. For instance, structured, detailed, punctual, and precise management accounting systems are to be expected in an SUA nation to help reduce the uncertainty inherent in making planning and control decisions. Table 2 matches the workplace traits that Hofstede linked to WUA nations with U.S. management accounting features that logically seem related to them. Let's take a closer look at the different traits associated with the workplace and how the two countries differ in management accounting practices.

1. Flexibility

German managers' lower tolerance for flexibility helps

Table 1: Strong Uncertainty Avoidance: Cultural Impact on German Management Accounting Practices

Associated Traits in the Workplace[1]	Related German Management Accounting (MA) Practices from Articles[2]
1. Not flexible to changes (120)	Uniform GPK and other MA systems in nation (31)[3]
	Long-term sustainability of MA systems that are often integrated into a permanent IT database (30, 37, and 38)
2. Work hard, always busy (121)	Price and resource quantity variances reported individually by cost centers and constant monitoring and balancing of spending and activity output volume of cost centers (33)
3. Comfortable in structured environments (121)	Formally integrated decision-support, budgeting, planning, and control GPK and PK (ABC) MA systems (37)
	Stand-alone PK (ABC) models not commonly used (38)
	Data for MA and financial accounting often formally integrated into a single IT database[3]
4. Detailed, precise, and formal rules/instructions to ensure things are done properly (121-122)	Highly detailed MA systems and large numbers of cost centers that conform to strict criteria help to ensure that managers and employees behave as efficiently and effectively as possible (32-33)
5. Punctuality is a natural trait (122)	Timely MA information (33)
	Use of up-to-date asset replacement values for depreciation (35)
	GPK and PK (ABC) used for budgeting, planning, and control (37)
	Heavy use of IT with MA systems (32, 38)[4]
	Widespread use of online, real-time cost control and analysis[5]
6. Precise answers to most work questions from subordinates is important to managers (122)	Highly sophisticated MA systems (31)
	More refined analysis of volume variances (33)
	Layered, grouped, and segmented product P&Ls (34-35)
	Use of asset replacement values, amortized R&D, imputed interest, and overhead allocation backflush adjustments in product P&Ls (35) and capitalized future maintenance costs[6]
	Many career management accountants employed by companies (38)
	Comprehensive MA systems (30-31)[7]
	Variances disaggregated by individual product[8]
7. Subordinates have one direct boss only (122)	Many responsibility cost centers, each dedicated to a single "activity" with one manager (32)
	MA and financial accounting roles separate and equal (38)[9]
8. Top management occupied more with daily operations and less with strategic problems (122)	Widespread use of GPK, a sophisticated contribution margin model with an operations short-run decision-support emphasis (31-32; 34-35)[10]
	Variance analysis heavily oriented toward operations (33)
	Cost planning focused at the cost-center level (38)
9. Good at implementing new ideas that come from WUA nations (123)	Disciplined and good MA design and methodology (37)[3]
	Management accounting is a different "science" from financial accounting with its own career-development path (38)

1 Taken or derived from Geert Hofstede, *Culture and Organizations: Software of the Mind*, McGraw-Hill International (U.K.) Limited, Maidenhead, Berkshire, England, 1991, page #s in parentheses.
2 Except where otherwise indicated by superscript numbers, MA features are taken or derived from Paul A. Sharman, "Bring on German Cost Accounting," *Strategic Finance*, December 2003, page #s in parentheses.
3 David E. Keys and Anton van der Merwe, "German vs. United States Cost Management," *Management Accounting Quarterly*, Fall 1999, p. 26.
4 Paul A. Sharman, "The Case for Management Accounting," *Strategic Finance*, October 2003, p. 47.
5 David E. Keys and Anton van der Merwe, p. 23.
6 *Ibid.*, p. 25.
7 *Ibid.*, pp. 19-26, for further details of the German MA systems' comprehensive and detailed approach and other pertinent material.
8 *Ibid.*, p. 23.
9 Sharman, October 2003, p. 45.
10 Wolfgang Kilger, Kurt Vikas, and Sochen Pampel, "0 Introduction: Marginal Costing as a Management Accounting Tool," *Management Accounting Quarterly*, Winter 2004, pp. 7-28, and Bernd Gaiser, "German Cost Management Systems," *Journal of Cost Management*, September/October 1997, pp. 35-41.

Table 2: Weak Uncertainty Avoidance: Cultural Impact on U.S. Management Accounting Practices

Associated Traits in the Workplace[1]	Related U.S. Management Accounting (MA) Practices from Articles[2]
1. Flexible to changes (120)	Wide variety of MA systems in nation (26) Based on a survey, 60% of organizations tried ABC, but only 20% sustained it[3] PC-based ABC models often used[3]
2. Able to work hard when needed, but no inner drive to be always busy (121)	Limited amount of detailed MA information wanted (26)
3. Comfortable in unstructured environments (121)	ABC systems generally are stand-alone PC-based models that are not part of an integrated monthly general ledger, monthly reporting, analysis, performance measurement, and associated network of operational systems[3] MA models usually are not formally integrated into one IT database with financial accounting systems (implied, 26)
4. Belief that problems can be solved without detailed, precise, and formal rules/instructions to ensure things are done properly (121)	Cost centers loosely defined (22) Low-complexity MA systems (26)
5. Punctuality not generally a natural trait but can be learned if needed (122)	Limited use of online, real-time cost control and analysis (23) Use of historical values for depreciation (25) May be limited IT support available (26)[3] ABC mainly used for retrospective modeling of prior periods that is often too late to be useful[3,4]
6. Precision not generally a natural trait but can be learned if needed (122)	MA systems limited in scope and integration (20) Variances calculated for all products and not disaggregated by product (23) Use of historical costs, R&D as a period expense, and so on, mirroring financial accounting practices (25)[5] Limited detail in segment P&Ls (25) Low-complexity MA systems (26) In a survey, 98% of responding CFOs and controllers reported that cost information is not accurate enough, largely because of distortions from overhead allocation[6] In another survey, only 23% of responding senior financial managers were satisfied with decision-support information[6] Traditional cost-allocation systems still predominantly used[3,6] Limited number of comprehensive and robust MA systems (20)[6]
7. Not important that subordinates have one direct boss only (implied, 122)	May not have requirement of only one person responsible for each cost center (implied, 22) Subordinates may be in "two-boss relationships or multiple matrix management"[7] MA models sometimes influenced by financial accounting and tax choices (25)
8. Top management occupied more with strategic problems and less with daily operations (122)	Absorption costing dominant;[3] and limited detailed MA information wanted (26) In a survey, 80% of responding CFOs and controllers reported that MA is important to their organization's strategic goals[6] Modern MA placed in a strategic framework[8]
9a. Good at stimulating basic innovations	a. ABC and the balanced scorecard developed in the United States[5] a. Many articles, books, and case studies on ABC[3]
9b. with a high tolerance for atypical ideas	b. *Relevance Lost* written by U.S. academics[6,8] b. On MA projects, primary use of consultants with a variety of expertise and methodologies, e.g., in ABC implementation[3,6]
9c. but not as good at implementing new ideas (122-123)	c. Computer support and management accounting expertise may not be widely available to install comprehensive German management accounting systems (26) c. In a survey, 80% of responding CFOs and controllers reported implementing new MA tools a low to medium priority given current economic conditions[6] c. Lack of a coordinated long-term robust management accounting resource pool[6] c. Generally poor implementation of ABC[3] and other strategic cost models[5]

1 Taken or derived from Geert Hofstede, *Culture and Organizations: Software of the Mind*, McGraw-Hill International (U.K.) Limited, Maidenhead, Berkshire, England, 1991, page #s in parentheses.
2 Except where otherwise indicated by superscript numbers, MA features are taken or derived from David E. Keys and Anton van der Merwe, "German vs. United States Cost Management," *Management Accounting Quarterly*, Fall 1999, page #s in parentheses.
3 Paul A. Sharman, "The Case for Management Accounting," *Strategic Finance*, October 2003, p. 46.
4 Paul A. Sharman, "Bring on German Cost Accounting," *Strategic Finance*, December 2003, p. 37.
5 *Ibid*., p. 30.
6 Sharman, October 2003, p. 44. Also see Ashish Garg, Debashis Ghosh, James Hudick, and Chuen Nowacki, "Roles and Practices in Management Accounting Today," *Strategic Finance*, July 2003, pp. 30-35, for further details of some of the survey results reported in Table 2.
7 Paul R. Sparrow and Jean-Marie Hiltrop, "Redefining the Field of European Resource Management: A Battle Between National Mindsets and Forces of Business Transition," *Human Resource Management*, Summer 1997, p. 208.
8 Sharman, October 2003, p. 45, and Garg, et al., p. 30.

explain their preference for uniform management accounting systems and the widespread adoption and longevity of GPK, as well as its typical integration into a permanent corporate information technology (IT) database. The flexibility preference of U.S. managers helps explain the wide variety of management accounting systems found in that nation. Also, an inbred desire for flexibility would likely lead to frequent changes in management accounting systems and a need for the stand-alone, PC-based activity-based costing (ABC) systems often found in U.S. companies. These systems can be updated quickly without affecting accounting records used for external reporting.

2. Work and "Busyness"

It is to be expected that managers in a culture that prizes hard work and "busyness," such as Germany, would value and be prepared to devote the time necessary to work with the high-output volume of a detailed management accounting system, such as the frequent and detailed spending performance variance analyses present in GPK. A less-detailed management accounting system is likely to be preferred by managers in a nation that values hard work when it is necessary but that has no socially inbred desire to be constantly busy for the sake of being busy, such as in the United States. A major advantage of less-busy periods in WUA nations is the availability of time to be creative and develop new management accounting ideas, which I will address further.

3. Structure

Highly structured environments are favored by citizens of SUA nations. It is no surprise, therefore, that German companies often use formally integrated GPK and Prozesskostenrechnung (PK)—process cost accounting—systems to help ensure that managers make short- and long-term decisions based on management accounting information in a consistent, predictable fashion throughout an organization and over time.

In the United States, GPK is described using terms such as "marginal costing," "flexible standard costing," and "contribution margin accounting."[10] It is viewed as providing management accounting information that supports short-term decisions. PK is the German version of ABC that complements GPK by providing management accounting information that supports long-term, strategic decisions.

Also, for many German organizations, data for management accounting and financial accounting purposes are maintained together formally in an integrated IT database using sophisticated software that allows common data to be entered only once for both systems. On the other hand, management accounting models in the United States are more likely to be less structured with, for example, stand-alone, PC-based ABC systems that are not integrated with other management accounting models or financial accounting in a permanent corporate IT database, which is consistent with a WUA culture.

4. Detail

In Germany, detailed management accounting systems and strict criteria for the formation of cost centers, which lead to a high number of cost centers, help to ensure that manager and employee behavior is in accordance with expectations. In the German culture, strict rules governing workplace behavior are expected to lead to the desired levels of efficiency and produce expected results in operations. For example, two of the seven (strict) criteria for German cost centers are that they are a manageable size and produce repetitive output.[11] Competent German cost center managers should become very efficient and effective at managing smaller cost centers with repetitive, predictable output coupled with supportive detailed variance analysis and other management accounting information. It is important in SUA nations to leave as little as possible to chance, so German managers should value highly detailed management accounting information.

Cost centers in the United States are more loosely defined, and management accounting information tends to be less complex, both of which are consistent with a WUA society, where greater discretion in decision making for individual managers is valued. U.S. managers are less likely than German managers to find that strict cost-center criteria and high complexity in management accounting help to promote efficient and effective workplace behavior.

5. Timeliness

Receiving management accounting information in a punctual, timely manner with frequent analyses helps reduce the uncertainty inherent in decision making, which is highly desirable in SUA nations. For example, in Germany, GPK and PK are used together to support prospective budgeting and planning as well as to support retrospective control decisions. The heavy use of IT in Germany facilitates supportive high-speed management accounting information processing and transmission to managers. This is evidenced by German companies' widespread use of online, real-time cost control and analysis. In contrast, U.S. managers do not have culturally inbred SUA, so they do not feel a great need for such timely information and frequent analyses. The WUA trait in the United States is illustrated by the typical use of ABC models for less-timely retrospective rather than prospective modeling. Also, there may be less IT support and less use of online, real-time cost control and analysis in the United States than in Germany.[12] U.S. companies use depreciation based on the historical cost asset values, whereas German companies often use depreciation based on up-to-date replacement cost asset values.

6. Precision

To provide precise management accounting information that helps managers make good decisions and answer questions, German organizations employ many well-trained career management accountants to run sophisticated and comprehensive management accounting systems that provide refined data analyses and detailed information. To ensure that the information is pertinent for management purposes, costs are included in reports to managers in a way that may not be acceptable for financial reporting, such as capitalized estimated future maintenance costs. High precision helps reduce the uncertainty inherent in decision making, which is important for an SUA nation like Germany. In the United States, management accounting systems tend to be much less refined and comprehensive, and the information provided is more aggregated and less detailed. Perhaps the lack of an inherent desire for very precise, highly detailed, and comprehensive management accounting systems was a major factor behind the short-lived adoption of ABC by many U.S. companies.

7. One or More Bosses

Having two or more bosses probably increases uncertainty in the minds of employees and thus is not likely to be an acceptable arrangement in an SUA nation. This cultural characteristic is illustrated by the German cost center criterion that states a cost center is to be the responsibility of only one manager. In the United States, two-boss arrangements and matrix management are used.

There also is a much clearer separation of management accounting and financial and tax accounting roles within an organization in Germany than in the United States, which removes uncertainty over which accounting area has responsibility for cost information used for internal versus external reporting purposes.

8. Strategic or Operational Emphasis

Strategic problems deal with major, long-term issues that have much more uncertainty associated with them than day-to-day operational matters. Managers in SUA nations tend to place greater emphasis on the more tangible, short-term operational issues, and managers in WUA countries tend to concentrate more on long-term strategic matters. The operational focus in Germany is one reason why GPK has such long-standing and widespread popularity there. It is a sophisticated contribution model with a primary focus of providing costing support for short-run decisions in operations and is the focus of cost planning in the many cost centers where the operations take place. GPK separates direct and variable costs from fixed costs, which are not assigned to products.

The operational emphasis in Germany contrasts with the strategic emphasis of management accounting in the United States, where traditional absorption costing and ABC models are dominant and managers want a limited degree of detailed management accounting information. Also, variance analysis is more heavily focused on operations in Germany than in the United States. Recently, the focus of management accounting in Germany has begun to change, with less emphasis on operational and more emphasis on strategic management accounting with the implementation of PK, target costing, life-cycle costing, and similar systems.[13] Manufacturing automation, increased fixed costs, increased outsourcing, and other business issues have impacted Germany and prompted these changes, but GPK remains the dominant management accounting model used by German companies.[14]

9. Instigator or Implementer of New Ideas

New ideas often come from WUA nations, and SUA nations seem to be better at developing and implementing them, which appears to hold true with management accounting innovations. The U.S. culture is good at stimulating new management accounting thinking because it includes a national tolerance for atypical ideas. This includes identifying defects in traditional management accounting theories and practices that leads to inventing new models, such as ABC and the balanced scorecard. German companies have a relatively larger human resource pool of career management accountants than the United States and seem to be better at implementing new management accounting ideas.

Cost-Benefit Considerations

It is interesting to note that German management accounting systems are variations of those used in the United States, tempered by national culture, economic factors, corporate culture, and other factors. For example, GPK is a more sophisticated version of the contribution margin models that are used in some U.S. companies, and PK is an adaptation of ABC. In the United States, external forces, such as the Sarbanes-Oxley Act of 2002, encourage the adoption of better management accounting practices.[15] As economic conditions improve, there will probably be internal pressures for improvement, too. It is a good idea for U.S. organizations to consider management accounting models used successfully in other nations, such as Germany, and vice versa, but any improvements are likely to be different in each country to some degree because of varying national cultural and other factors. National cultural factors are a part of the cost-benefit considerations that should underlie all management accounting choices. This should be kept in mind by those pressing the case for adopting German management accounting practices in U.S. companies. ■

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Endnotes

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