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Obedience and accommodation in China

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Purpose

- The paper sets out to show how the long-lasting disciplinary structure of Imperial China has left its legacy on the internal control systems of modern China
- Such a structure when married to the disciplinary structure of accounting can be very effective.
- To show cultural history is relevant to internal control

Internal Control Weakness (ICW)

- [Ge and McVay \(2005\)](#) note that personnel problems are at the root of many of the reported weaknesses and this brings into questions the extent of managerial agency. Toshiba reports \$1 billion fraud due to a culture of obedience (Economist, July,2015)
- Foucault (1980) recommends that researchers investigate the micro-elements of discipline and control rather than the macro approaches, which sample hundreds of firms filing reports as required by Section 404 of the Sarbanes-Oxley Act.
- Foucault (1980) refers to the “subjugated knowledge” – local memories regarded as unqualified or actively disqualified with the hierarchies of scientificity. He goes on to say that such an approach at the micro level “allows us to establish a **historical knowledge of struggles** and to make use of this knowledge today” (p. 82).
- Personnel problems are, according to [Ge and McVay \(2005\)](#), at the root of ICW. To get to this root, it is necessary to follow a micro approach, macro approaches involving sampling for probabilities as outlined cannot expose these roots.
- Foucault (1980) recommends that researchers should: entertain local, discontinuous and illegitimate forms of knowledge so that subjugated knowledges can be brought into play.

ICW & Accounting Quality

- Inadequate supervision or improper supervision of duties can create opportunities for employees and impair accounting quality (Rice & Weber, 2011).
- ICW can be manipulated by a culture of obedience – see Toshiba \$1 billion fraud. Also Chinese integrated Energy and Sino Forest are among Chinese companies de-listed for concealed related party transactions and staff responses of silence to investigative questions by auditors. (Economist, July, 2015)
- Micro elements of internal control are concerned with supervision of staff. Poor supervision, or staff accommodation to managers may be responsible for ICW.

Control by shame

- The paper shows how the justice system operated in China until 1911 and arguably beyond.
- Superiors could not be questioned even when wrong, guilt was always presumed and, with punishment, confession was exacted. Witnesses could also be punished.
- Performed in public the effect was to shame the individual. Often the accused were paraded and whipped in the streets (Gray, 1878)



Method

- From 2005 – 2010, I worked as a trainee manager for a large Chinese hotel group participating in every area of the hotel business.
- Part of my duty was to complete a daily journal recording events and reflections
- The observations are drawn from my journalised records.

Parades and invective

- Chinese organizations hold morning parades of staff as opportunities for hectoring by managers.
- To be the target of managerial invective is to invite shame. Such management criticism cannot be protested but must be accepted even when the accusation is wrong.

Accounting & control

- While accounting provides a structure of financial goals, budgets and performance measures, as Hopper and Mackintosh (1998) found the implementation of control becomes the agency of managers.
- To please owners by maximising profit, managers will make use of labour and the environment unless there is some regulation in place to provide safeguards (Gleeson-White, 2011).

Accounting, Corporations & China

- Bakan et al (2004) tested the psychological profile of the modern corporation using the American Psychiatric Association's diagnostic manual for mental disorders and found that corporations share many characteristics that define psychopaths: they break the law; hide their behaviour; sacrifice long term welfare for short term profit; are aggressively litigious; ignore health and safety codes; and cheat their suppliers and workers without remorse.
- Migrants are perfect workers for Chinese corporations

Literature

- For some time accounting academics have drawn attention to the role of accounting as underpinning the structure of organisations and by so doing transform behaviour ([Hopper & Macintosh, 1993](#); [Knights & Collinson, 1987](#); [Miller & O'Leary, 1987](#); [Roberts, 2014](#))
- [Roberts \(2014\)](#) shows that staff behaviour is shaped by the structure and the extent of managerial agency.
- ICW literature employs a macro approach by determinants of probability such as: market capitalisation, firm age, aggregate loss, bankruptcy risk, number of operating divisions, sales growth, restructuring charges and governance. Firms scoring high probabilities of weakness on these variables are deemed to be relatively more distressed and have lower market values, greater complexity of operations, higher incidence of organizational change and greater accounting measurement risk (Doyle et al, 2007).

Accounting & agency

- Self-subordination may come about as a result of quantification in a relational society such as China, there is less need for managerial agency to be explained ([Hu, 2013](#)).
- According to [Hu \(2013\)](#) what is distinctive about Chinese culture is how power and punishment have over the centuries been designed to engender accommodation and shame.
- The latter sense being etched into the Chinese psyche, where, as [Hu \(2013\)](#) observes, the loss of face and public shame are to be avoided whatever the price in self-subordination.

Observations

- Manager X shouts at staff to humiliate in public those not fulfilling their performance targets
- Manager Y is more concerned with appearance and uniformity perceiving the symbolic function of the staff to be vital to the bottom line
- Accommodation - staff seek preferences by gifts, etc. Guanxi survives in this form as my paper shows.

Guanxi & Migrants

- The tradition of guanxi persists and staff without guanxi may be subjected to negative reviews (Han & Altman, 2009)
- Migrants from the countryside without city ID are not protected by labour laws.
- Staff may give gifts to managers who cannot remember who gives gifts but remembers who does not give gifts

Conclusion: accommodation, obedience and authority

- Accommodation to superiors through “guanxi” is how staff seek to protect their jobs and gain preferences. Internal Controls are compromised when staff gain work preferences.
- Respect for superiors and fear of being shamed remain powerful influences in China.
- How staff are assessed and driven are, as Hopper and Mackintosh (1998) demonstrate, part of the culture of an organisation, which necessary reflects the wider societal culture. Culture as Hofstede (1986) found varies according to history, tradition and practice.
- The legacy of the Confucian tradition is that superiors should be obeyed but not be questioned. Managers at all levels of organisations in East Asian countries support a Confucian legacy of rewards and punishments based on imposing a sense of shame and self-subordination.
- The recent Sino Forest fraud case demonstrates how a culture of obedience to authority may cloak ICW, which defy an international audit firm (EY) to uncover.
- The legacy of a cultural history and the buried memories that are carried, should be of interest to accounting researchers seeking to explain how an ostensibly objective mechanism as accounting may be employed subjectively.



Thank you!