

The Influence of Cultural Value in Malaysian Firms: A Research Note

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Abstract: Malaysian economy is currently experiencing a rapid growth. The globalization process of Malaysian economy brings in more expatriate and expertise not only from Asia but also from Western. The integration of the thinking with multi culture may change the power distance influence between superiors and subordinates. However no evidence so far has been empirically presented that may support this argument. Thus this study aims to discuss this issue whether globalization affect the change of the power distance index, which consequently influence budgeting behavior of Malaysian managers.

Key words: power distance; Malaysia; budgeting behavior

JEL code: M14

1. Introduction

Power distance concerns the issue of inequality of distribution of power and authority among individuals in organizations. Power Distance Index (PDI) is a method used to measure power distance between employees or subordinate and superiors in an organization. In developed countries, their PDI are said to be low whereas in less developed countries their PDI are high. This measurement reflects the relationship between superior and subordinate whereby low index means there are minimal difference between subordinate and superior. They can cooperate and participate in decision making, resulting in the decision made to be more democratic and decentralized in nature.

For firms with high power distance index, the opposite can be observed. There are significant differences between subordinate and superior, with more instructions coming from superior. With a more autocratic style of leadership, subordinates could not disagree with the decisions made by the superior. However, they tend to be a follower and decisions are more centralized.

Our concern here is whether the high power distance index in developing countries and less developed countries will last forever. If these countries are actively involved in business networking and bilateral trade with developed countries, maybe we could expect some changes in the power distance index. Thus, the objective of this study is to examine whether rapid growth, industrialization and the emerging economy of Malaysia influence the power distance index, which consequently influence and change budgeting behavior of Malaysian managers.

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2. Malaysian Economic Report

The year 2012 shows a rapid growth of the Malaysian economy. The GDP report from Bank Negara shows that Malaysia economic is expanding with a rate of 5.4% for the second quarter of 2012, which increase from 4.3% in the same quarter of last year. This positive economic growth has made Malaysia the country of choice for international investors. However, has this rapid development change the power distance in Malaysia and specifically in its firms?

3. Power Distance Index Research in Malaysia

Hofstede (1980) has conducted research from 1967 to 1978 in a multinational corporation that has branches in 50 countries and 3 multi-country regions (Hofstede, 1983). Based on his research, he identified four dimensions of national culture—power distance, individualism, uncertainty avoidance and masculinity. Hofstede and Bond (1988) later identified another dimension, called Confucian dynamism, which made a total of five dimensions for national culture altogether. The brief definition of each of the dimensions follows:

3.1 Power Distance

Power distance concerns the issue of inequality among individuals in organizations. It is associated with the inequality of distribution of power and authority. According to Hofstede (1983, p. 81), “the level of power distance is related to the degree of centralization of authority and the degree of autocratic leadership”. Large power distance societies are normally related to an autocratic style of leadership and centralization of decision making. In contrast, a more participative style of leadership is likely to occur in low power distance societies with more decentralization of power. Based on Hofstede (1983), examples of countries with a high power distance level are Malaysia, the Philippines, Mexico, Singapore and South Korea, whilst low power distance level societies include Austria, New Zealand, Norway, the USA and Germany.

3.2 Individualism

Hofstede (1984) described the individualism dimension as the relationship between an individual and its group within the society to which they belong. Those in high individualism societies are concerned more about themselves and their immediate family (Hofstede, 1983). The USA, Australia, Britain, Canada and the Netherlands are examples of individualist countries (Hofstede, 1983). In contrast, those in low individualism societies, called collectivism societies, consider everyone in the group and they are tightly integrated societies (Hofstede 1983). Collectivism societies are normally comfortable working in a group and they are likely to be dependent on each other. Examples of these societies include Pakistan, Colombia, South Korea, Singapore and Malaysia (Hofstede, 1983).

3.3 Uncertainty Avoidance

Uncertainty avoidance is related to the uncertainty of the future. Since events occurring in the future cannot be exactly known at the present, the way to cope with uncertainty depends on the particular society. In order to deal with these uncertainties and anxiety levels (Frucot & Shearon, 1991), individuals adopt “strict codes of behavior and a belief in absolute truth” (Hofstede, 1984, p. 390) in order to minimize these uncertainties and anxieties. Societies with strong uncertainty avoidance are adverse to risks, emotional, security-seeking and intolerant; while societies with a weak uncertainty avoidance or uncertainty acceptance are risk takers, less aggressive and relatively tolerant (Frucot & Shearon, 1991; Hofstede, 1984). Countries with strong uncertainty

avoidance include Portugal, Japan, Belgium, France and South Korea and those in weak uncertainty avoidance include Singapore, Hong Kong, Jamaica, Sweden and Denmark (Hofstede, 1983).

3.4 Masculinity

The masculinity dimension concerns male and female values and their impact on social activities (Hofstede, 1984). It is related to the distribution of the social role of the different sexes in different societies. A masculine culture expects men to be assertive, dominant and to strive for material success and women to focus on interpersonal relationships and “to serve and care for nonmaterial quality of life and for children” (Hofstede, 1984, p. 390). These societies limit the roles that should be occupied by men and women. At the other extreme, feminine culture permits both men and women to serve many different roles. This culture places more value on relationships and the quality of life. Hofstede (1983) considered countries with a masculine culture, amongst others, to include Japan, Austria, Mexico, Switzerland and Italy, while countries with feminine cultures include Sweden, Norway, Denmark, the Netherlands and Costa Rica.

3.5 Confucian Dynamism

Confucian dynamism is related to the orientation attached to the future (or long-term orientation) versus the past and present (or short-term orientation). The values that reflect future orientation include “persistence (perseverance), ordering relationships by status, thrift and having a sense of shame” (Hofstede & Bond, 1988, p. 17). For those societies whose emphasis is on the past and present orientation, the values include personal steadiness and stability, protecting one’s face, respect for tradition, and reciprocation of greetings, favors, and gifts (Hofstede & Bond, 1988, p. 17). Some examples of countries with a high score (future orientation) on the Confucian dynamism scale include Hong Kong, Taiwan, Japan, South Korea and Brazil; while countries that score low (past and present orientation) on the scale include Pakistan, the Philippines, Canada, Britain and the USA (Hofstede & Bond, 1988).

This paper focuses on the impact of *power distance* in the budgeting behavior due to the globalization and emerging economies that Malaysia is presently encounter. Power distance has been identified as the relevant dimension that affects leadership in organizations (Hofstede, 1983; Lau & Tan, 1998). Even though power distance is a dimension of *national* culture (rather than *organizational* culture), Hofstede and Bond (1988) acknowledged that the definition of national culture can be applied to both national and organizational culture. Moreover, Hofstede’s (1980) dimension and measures of power distance are relevant and operational at the organizational level (Pratt & Beaulieu, 1992) since “it reflects both the culture’s values and perceived practices” (p. 671). It is further supported by O’Connor (1995), who suggested that power distance dimension is “meaningful in comparing organizational cultures” (p. 386).

Power distance is defined as “the collective programming of the mind that distinguishes the members of one organization from another” (Hofstede, 2001, p. 391). It refers to the leadership style of an organization which ranges from autocratic to democratic or participative styles. Autocratic style is more related to the enforcement of decision by the top management. In this style, since only the top management make decision, centralization of power is normally portrayed and the subordinates are willing to be a follower (Hofstede, 1983). It is theorized that in this high power distance societies, the inequality of power occurs and any decision making process will be made without prior consult of the subordinates (Hofstede, 1980; 1983; 1990). This high power distance society tends to be followers and strong dependence needs of superiors (Hofstede, 1983). They are willing to accept inequalities and expect management to behave autocratically.

Unlike the autocratic style, a more lenient and democracy way of leadership called democratic or

participative style is more related to the discussion and participation in decision making process (Hofstede, 1983). In this low power distance societies, decentralization of power normally exist, equality of power occurs and decisions are made after considering the views and opinions from different levels of management.

4. Malaysia (Asian Countries) vs. Anglo-American Countries

The difference in power distance index between countries in the Asian region and Anglo-American countries is clearly evidenced (Hofstede, 1983). While Malaysia scored at the highest end, with an index of 104, the score of Anglo-American countries (for example, the United States, Australia and Great Britain) ranges from 35 to 40 (Hofstede, 1980; 2001). This signifies that Malaysia is a high power distance country, whereas Anglo-American societies are amongst the low to moderate power distance countries.

However, this index is obtained based on research carried out from 1967 to 1978 (Hofstede, 1983), which was over 30 years ago. Moreover, Malaysia was classified as poor countries at that time with GNP/capita less than US\$10,000 (Hofstede, 2001), which exceptionally differ with what has been reported this year (GNP of RM166.7 billion) (Department of Statistics, Malaysia). Thus, the validity of the index can be questioned since Asian countries are experiencing fast economic growth (Lau et al., 1995; Heuer et al., 1999).

In the current globalization era, this index may no longer be accurate and there may be some changes in the current power distance index in Malaysia. Previous studies have also shown changes in the power distance index between Hofstede (1980; 1983; 2001) and other studies (Harrison, 1992; Harrison et al., 1994; O'Connor, 1995). The analysis of the changes in the index is shown in Table 1.

Table 1 Selected Countries with the Changes of Power Distance Index

	Power Distance Index from Previous Studies	Power Distance Index from Hofstede (1980)
Singapore		
Hwang (1989)	67	74
Harrison (1992; 1993)	92	
Harrison et al. (1994)	73	
O'Connor (1995)	61	
Lau et al (1997)	60	
Lau and Tan (1998)	63	
Australia		
Hwang (1989)	2	36
Harrison (1992; 1993)	58	
Harrison et al. (1994)	32	
Lau et al. (1997)	26	
Lau and Tan (1998)	41	
Norway		
Lau and Buckland (2000)	-10	31

Sources: Harrison (1992; 1993), Harrison et al. (1994); Lau and Buckland (2000), Lau and Tan (1998) and O'Connor (1995).

It can be seen from the table that there are changes in the power index score obtained in Hofstede (1980; 1983; 2001) and the power distance score reported in past studies. Thus, it is highly likely that the score in Malaysia will also differ from the one reported in Hofstede (1983; 2001).

5. Power Distance Influence in Budgeting Behavior

It is argued in the literature that the effectiveness of participation is based on the cultural value that the societies have (Hofstede, 1980; Frucot & Shearon, 1991; O'Connor, 1995; Lau & Tan, 1998, Douglas et al., 2007). O'Connor (1995) provided empirical evidence that the effectiveness of participation is moderated by power distance. He investigated the interaction effect of power distance with participation in planning and participation in the evaluation process in reducing role ambiguity and enhancing subordinates' trust and respect for their supervisor. Using the sample of managers working in local and foreign firms situated in Singapore, he found that the effectiveness of participation is moderated by the power distance culture, in which high power distance and low power distance cultures show different results.

Further evidence was found in the research by Frucot and Shearon (1991) who replicated Brownell's (1982) study in the different countries. The aim was to generalize the findings of Brownell in the interaction effect of the locus of control and participation on both managerial performance and satisfaction. While the findings in Frucot and Shearon were consistent with Brownell concerning the effect of the locus of control in the budget participation-performance relationship, no interaction of the locus of control affecting satisfaction was found. They concluded that the different results were probably due to the cultural influences in both countries, specifically, in the US and Mexico (Frucot & Shearon 1991).

Further support for the influence of culture on the management control system was found in Harrison et al. (1994). In their study, which compared Anglo-American and East Asian nations, this positive influence of culture was demonstrated. Similarly, Douglas et al. (2007) found significant differences in the budgeting behavior of Egyptian managers working in local firms and Egyptian managers working with US firms in Egypt, providing evidence for the influence of culture in budgeting systems. Similar results were also found in Tsui (2001) and Etemadi et al. (2009).

These positive effects of cultural influence, however, are not consistent with Lau and Tan (1998), who examined cultural influence on the relationship between evaluative style and managerial performance in Australia and Singapore, and found no effect on the relationship. They argued that this surprising result could be due to the "internationalization and globalization of [the] financial market" (p. 174) and the higher qualifications and international exposure that Singaporean managers have.

Another study, by Heuer et al. (1999), examined the difference in the power distance score between managers in Indonesia and the United States. They found no significant difference in the mean power distance score for the managers in both countries. They concluded that the insignificant differences were due to the rapid growth of Indonesia's economy, which fosters the use of Western management techniques to compete with the globalization pressure.

6. Research Methodology and Variable Measurement

In order to examine whether rapid growth and emerging economy of Malaysia influence the change of the power distance index, preliminary study was conducted using semi-structured interview in both manufacturing and service companies. The companies were randomly selected from Bursa Malaysia website, whereby the managers were contacted directly, and asked to participate in the interview. The respondents were asked about the effect of organizational culture, in particular the power distance influence in their firms.

A total of ten interviews were carried out in the respondent's offices and each interview took between 45 minutes and 1 hour. After the interview was conducted, the recorded data were immediately transcribed to prevent any loss of data.

7. Results and Discussions

Table 2 Profile of the Respondents Participated in Interview

Respondent	Position	Department
1	Senior Executive	Operation
2	Manager	Finance
3	Operation Manager	Operation
4	Senior Manager	Finance
5	Senior Manager	Engineering
6	Senior Manager	Finance
7	Senior Executive	Finance
8	Senior Executive	Finance
9	Department Manager	Manufacturing
10	Assistant Manager	Finance

Table 2 provides the profile of the respondents participated in the interview. All the ten managers interviewed were involved in the budget setting process. They agreed on the importance of budget participation as a way of information sharing to make better decisions, which is in line with the objectives of the organization. Through participation, clear direction is shown and assists in the implementation of the budget without much disagreement.

Regarding the influence of cultural value, all the respondents believed that the implementation of budget participation would not be effective if the firm practices a more autocratic style of leadership (i.e., when the power distance is high). The budget would only be prepared on the basis of the previous year's budget with a few amendments just for the sake of preparing the budget, as the final decision is predominantly decided by the top management. However, all the interviewees perceive that in their department or organization, a more participative style of decision making is practiced, which means that the power distance is low. Even though the final decision depends on the top management, justification is sought before any amendment is made.

When asked about the impact of power distance on the effectiveness of budget participation, all the interviewees perceived that, generally, the cultural value should have some influence on the effectiveness of budget participation. If there is an autocratic style of leadership by the superior, then the effectiveness of participation can be adversely affected. In fact, the employee will not be allowed to contribute ideas and provide adequate information even regarding the work in which they are directly involved. However, if the superior is practicing a more democratic style of leadership, budget participation is more effective and useful.

In general, the interviewees generally perceived that in a situation where a more participatory style of leadership was being practiced, the cultural effect is definitely not an issue. There is a higher level of participation in their firms, which shows a lower level of power distance between superior and the subordinates. They asserted that the effect of high power distance might occur in family-owned businesses, where the senior family members normally dominate the top management, which increases the power distance level in the firms.

8. Direction for Future Studies

These findings may suggest the need to examine the recent power distance index of countries undergoing rapid growth, such as Malaysia. While there are numerous studies that examine the influence of power distance in the US, Australia, Mexico, Egypt and some Asian nations, for instance, in Singapore and Indonesia (Frucot & Shearon, 1991; Harrison et al., 1994; O'Connor, 1995; Lau & Tan, 1998; Heuer et al., 1999; Tsui, 2001; Douglas et al., 2007), none have investigated the influence of power distance in the budgeting behavior in Malaysian firm. Having the highest score reported in power distance (Hofstede, 1983), future study may provide evidence that can offer further insight into the influence of culture at the organizational level in Asian nations. Moreover, higher level of education, mobility of workforce and increased participation of multinational companies in the economy may influence the level of power distance in Malaysia.

9. Implications

9.1 Theory

This study contributes to the existing literature by suggesting a need to examine a recent power distance index in Malaysia. While the index may be moderately lower than previously reported by Hofstede (1983, 2001), it may provides some evidence for the argument concerning the validity of the index obtained over 30 years ago. The research conducted by Hofstede (1980, 2001) was carried out from 1967 to 1978, which may no longer represent the current power distance index of Malaysia's current population.

Moreover, the internalization, industrialization and business networking experience that most of the Malaysian managers have, may support the lower level of power distance index. In this era of globalization, most Asian countries are experiencing fast economic growth (Lau et al., 1995), with an increasing number of local managers having an overseas education background, especially from Anglo-American countries such as the USA, the UK and Australia. The managers may also pursue education in private institutions of higher learning in Malaysia, which have twinning programs with Anglo-American institutions. This may possibly reduce the power distance effect through the socialization process practices in other countries. Finally, the era of emerging economies nowadays may promote direct communication among various levels of employees in the organization; thus, employees are more participative in the firm's decision making.

9.2 Readers

This study enables the readers to understand the effect of liberalization and globalization in a developing country, which may affect the power distance level of the organization, in particular, the changes in the leadership style in business. Even though Malaysia is an Asian country, which has been classified as having a high power distance index (Hofstede, 1980; 2001), internalization, overseas education, and bilateral networking between Malaysia and multinational companies in the economy have changed the level of power distance in Malaysia.

9.3 Business/Management Practice

For the practical implications, while the recent power distance index in Malaysia may show a low to moderate level, it may indicate the readiness of Malaysian managers to actively participate in decision making, particularly in those decisions that directly affect them. Being actively involved in the budget setting process may provide opportunities for the managers to determine a fair and favorable budget and encourage them to exert effort into achieving the goals that have been set.

10. Conclusion

The objective of this study is to examine whether rapid growth, industrialization and the emerging economy of Malaysia influence the power distance index, which consequently influence and change budgeting behavior of Malaysian managers. Based on the preliminary study conducted, it may suggest the existence of lower power distance in Malaysia. It is reflected by the higher level of participation in the budgeting process among managers in Malaysia.

This result may be due to various reasons. In line with the rapidly changing business environment nowadays, globalization and bilateral trade between developing countries and developed countries brings in more expatriate and expertise not only from Asia but also from Western. The socialization process among local and foreign managers may change the power distance influence in organization. Further, qualification and international exposure of Malaysian managers to different cultures might also be the reasons. This notion is supported by Lau and Tan's (1998) study, which did not find a significant relationship between culture and evaluative style; probably due to the tertiary education of managers. Moreover, based on the report provided by The Star in Malaysia, which cited the Ernst & Young's 2010 Globalization Index, the globalization index of Malaysia is improving with openness to trade scoring 6.2 out of 10. This has led to the increment of foreign direct investment in Malaysia, which may have diluted the cultural values of local managers to lower power distance due to the assimilation and integration process of local and foreign culture. Heuer et al. (1999) also provided empirical evidence for the insignificant difference in the power distance between Indonesia and the US. They concluded that the rapid economic growth in Indonesia is the reason for the finding, in which the managers "may have adopted attitudes toward management and organizational interaction that are less hierarchical" (p. 608).

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