



Increase the contribution of Maars China to Maars Holding by improving the overall performance of Maars China.

Developing a new organization structure and an accounting system to improve the performance of Maars China

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Executive summary

This thesis is written with the intention to improve the performance of Maars China for delivering a greater overall contribution to Maars Holding. We focused our research on the development of a new organizational structure and the improvement of the accounting system of Maars China. The main objectives of this research are to close the accounting gap between Maars Holding and Maars China, and to develop an organizational structure that fits Maars China. With this in our mind, we started with a preliminary research. The goal of this preliminary research was to identify the problem and analyze the current situation of the organization.

The research consists of an analysis of the current situation, an overview of the desired situation and a proposal for improvement. The analysis of the current situation describes both the problems of the organizational structure and the accounting system. The data from the current situation is gathered by an in-depth interview (formal and informal), an observation, an internal document review, a desk and a field research. The overview of the desired situation describes the gap between the current situation and how the situation could theoretically be. In the section "proposal for improvement", we discuss and analyze the gap between the current situation and the desired situation and propose suggestions for improvement. In the chapter "implementation" we present a plan on how to translate the research results into practical improvements.

The results of our research reveal that there is room for organizational improvement. The organizational structure of Maars China does not fit the organization's complexity, size, culture, environment and goals. As a result, we observe an organization adrift; the organization's capabilities do not match the performance and the goals. The financial targets, for example, are not achieved, due to a lack of control and planning. The job descriptions (unclear and incomplete) are not adapted to Chinese employees, who have no initiative what so ever. The bottleneck can be traced to the low formalization and standardization, the extremely high centralization of decision making, unclear hierarchy and authority, hardly any collaboration between departments and individuals, indirect and sparse internal communications, not well defined goals and also limited resources and knowledge. The pressure for change can be explained both internally and externally. The internal pressure for change is growth pressure, integration and collaboration pressure, identity pressure and new-broom pressure. For the external change pressure we recognize international pressure, bench marking pressure, market pressure, competition pressure and reputation and credibility pressure.

In the section "suggestions for improvement" we propose an organizational structure based on the divide and rule model. This organizational structure is characterized by formalization, standardization, a limited degree of decentralization, clear hierarchy and authority, encourages interdepartmental communication and collaboration and clear job descriptions. This organizational structure should provide the top management with a better control of the whole organization and should help to develop and adjust the planning to achieve the targets. The organization will become more efficient and effective. This will enable Maars China to improve the overall performance and make a better contribution to Maars Holding.

The conclusion of our accounting research is that the problem of accounting is caused by the different characteristics of the specific accounting systems of each country and a lack of knowledge and experience of both GAAP systems. According to the accounting theory there is a distinction between management accounting and financial accounting. The problem of management accounting is unreliable financial information which causes errors in accountability, control and decision making. The problem of unreliable financial

information is caused by a lack of Dutch GAAP knowledge, a lack of cost price calculation, communication and collaboration and a lack of financial policies and procedures. The differences of financial accounting between Maars Holding and Maars China are caused by the external environment. The country specific accounting system is dictated by the government, by law and economic needs. The International Accounting Standard Board tries to set up an international accounting system which can model as a bench mark for every country specific accounting system. This international accounting system is also adopted by the Chinese government, with adaptations for the Chinese circumstances. The gap in financial accounting between the Maars Holding and Maars China accounting systems will always exist.

Our suggestions for improvement are based on the improvement of the current accounting system. The implementation of the International Accounting System (IAS) as *the* standard system is not feasible for Maars Holding and Maars China because country specific circumstances are not included in IAS. We focus our suggestions on the financial knowledge transfer between Maars China and Maars Holding. We strive to implement the Dutch GAAP in Maars China as management accounting for Maars Holding, next to the financial accounting for the Chinese government based on the Chinese GAAP. Therefore the financial department of Maars China must be familiar with and be able to report financial information based on the Dutch GAAP. On the other hand, the financial department of Maars Holding has to learn the Chinese financial and tax rules, so that they can make well-considered decisions about Maars China, like decisions on investment, financial aid, and etcetera. To produce reliable input for financial reports the cost price has been calculated; interdepartmental communication has been intensified and financial policies and procedures have been established for the whole organization. Reliable financial information will increase the accountability, control and decision making. Reliable financial information will indirectly improve the performance of Maars China.

The suggestions for an organizational structure and an accounting system are combined in the implementation plan. The implementation plan will function as a guide to implement the proposal and evaluate the results. Our contribution to solving the general problem is limited to solving the organizational and accounting problem. To increase the overall performance of Maars China and to contribute to Maars Holding, we propose to do further research on other topics, like collaboration, cultural differences, insourcing and outsourcing, marketing and quality control.

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Preface

This master thesis has been written to graduate the Business Administration study with Track International Management at the University of Twente. This thesis was carried out for Maars Holding in Harderwijk, The Netherlands and Maars China in Shanghai, China. A big part of our research took place at Maars China. This thesis includes two researches. The first part of the thesis can be characterized as a strategic organizational development with a focus on organizational structure. The second part of the thesis focuses on the development of an accounting system. The biggest drives for us to carry out this challenging research are the international characteristics of the problem, the multicultural aspects of this research and our interest in China. For us, this is a unique chance to test our knowledge and to gain experience.

During the research we had our ups and downs. The culture barriers, communication obstacles, time pressure and extremely changeable situations are some of the problems we faced during our research. Sometimes it was very frustrating for us. But we are very grateful that we can work well together; this encourages us to achieve the maximum result. Nevertheless, during the research period we have learned a lot. It was a great experience in our lives.

We are very grateful for the individual contribution of our mentors which helped us to accomplish our master thesis. The first persons we want to show our appreciation to are our company mentors Frank Smit, Kasper Tappel and Huub Gering.

In addition, we want to express our thanks to our mentor of the University of Twente, Prof J.J. Krabbendam and Ir. S. Maathuis. We appreciate their academic advices, their professional support and their willingness to support us when we encountered problems. We also want to thank the University of Twente, which provided us with the necessary accommodations enabling us to complete our master thesis successfully.

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Ertan Ates

Jack Huang

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Introduction

This master thesis includes two research topics: organizational structure and accounting system. Jack Huang is responsible for the organizational structure. Ertan Ates is responsible for the accounting system. Despite our individual topics, we have collaborated intensively during our research because of the interdependence of our research topics.

The layout of the thesis has, in accordance with our research strategies, various chapters and subchapters.

Chapter one contains information on the background of the organization.

Chapter two involves the general problems of the organization. Next, the research problems are defined. And finally, the problem formulation, research questions, research approach and research structure are added.

In chapter three the organizational structure is discussed. We started with theories and models on the organizational structure. After analyzing the current situation, we scanned the current organizational structure for theoretical shortcomings. Finally, we suggested improvements for the organizational structure.

In chapter four the accounting problems are discussed. First, we started with the theories and models about accounting. Next the current situation is discussed. After that we scanned the current accounting system for theoretical shortcomings. Finally, we suggested improvements of the current accounting system.

In chapter five an integral implementation plan for both research topics is presented.

Chapter six includes conclusions and feedback of the general problems and suggestions for further research.

1. Background Maars

1.1 Background of Maars Holding

Maars Holding is a Dutch Company for partitioning systems headquartered in Harderwijk in The Netherlands. Maars is established in 1946 by Mr. L. Maars Sr. He started the company in a canal house in Amsterdam just after the Second World War. Maars quickly grew out of this house and made a necessary move in 1960 to the building on the Deventerweg in Harderwijk. At that time, Maars' product package consisted of light, air, walls and ceilings. The current location of Maars was built in 1974. To become a main player in the market of partitioning systems, Maars sold its other activities and became a specialist in partitioning systems.

Activities of Maars Holding

For more than 60 years now, Maars has been producing, selling and assembling Maars flexible partitioning systems for commercial and industrial buildings, offices, schools, hospitals, hotels, showrooms, and etcetera. It supplies virtually the entire 'inner skin' of a building, consisting of movable partitions including doors and wall units. Now Maars Holding consists of three divisions: Project, Manufacturing and Trade. The project division is the cash maker of the company. This division takes care of the order portfolio until the project comes through. The Manufacturing division is responsible for the production of a partitioning system; this division does not make any profit. The difference between the project and the trade division is that the trade division sells products to third parties and does not take care of the installation of the partitioning products. The turnover has grown to almost 70 million euro a year. 70% of the turnover is export. Maars Holding is the market leader of partitioning systems in The Netherlands. At the moment, Maars exports to more than 35 countries in the world. Maars Holding has 8 companies (100% owned or joint ventures) in the following countries: Belgium, Germany, France, The Netherlands, Poland, Switzerland, the United Kingdom and the Republic of China. In the other 24 countries, Maars Holding positioned itself through dealerships. According to the forecast of CBS and Maars Holding the Dutch market for construction is shrinking and international activities will therefore become more important.

Internationalization

At the beginning of the nineteen-seventies, a joint venture with the Americans led to various technological developments. In 1974, work started on the construction of a new production facility and the introduction of new machines allowed a sharp increase of production capacity. It now became more attractive to develop more activities abroad, so a start was made on setting up foreign branches with their own assembly teams. This resulted in expansions into Belgium, France, Germany and Switzerland, with a staff increase of at least 600.

1.2 Background of Maars China

Before 2004, Maars Holding conducted a research on the Chinese market for partitioning systems. As a result of this research, Maars Holding set up a subsidiary in China in 2004. The speedy economic growth in China in the past years provoked Maars Holding to enter the Chinese market by setting up a production facility and a sales office in Shanghai. The entry strategy was based on a joint venture with a Chinese partner. In 2007 Maars Holding becomes 100% owner of Maars China. The Chinese market for office partitioning systems was practically non-existing. The product of Maars Holding was totally new. So in the

beginning it was very important for Maars China to let the “potential” customer become familiar with Maars China products.

Activities Maars China

As a daughter company of Maars Holding, Maars China is influenced by the activities of Maars Holding. The product range and activities of Maars China are almost the same as those of Maars Holding. This means that Maars China will expand its activities to hotels and hospitals in the near future. At this moment, Maars China totals 80 percent market shares of the high end segment for partitioning products in Shanghai. China is more than only Shanghai. In 2008 Maars China expands its geographical representation. For example, it opened a new office in Beijing and also tried to establish dealerships inside and outside of China. The sales target for the next couple of years is very ambitious.

Organizational structure of Maars China

In 2007 Maars Holding developed a new organizational structure based on divisions. The organization of Maars Holding is divided into three parts: Trading, Project and Manufacturing. Maars Holding has chosen for this structure to be more efficient and less bureaucratic. This structure is also adopted by Maars China. At this moment Maars China consists of two parts: Project and Manufacturing, because Maars China does not have a dealer network yet.



Maars China Project : Standard Chartered Bank Shanghai, Pudong Area

2. General problem and research plan

2.1 The general problem

In 2004 Maars Holding started a partnership with a Chinese company. The result was that the Chinese partner owned 49 % of the stock and Maars Holding 51%. According to the agreement between Maars Holding and the Chinese partner, Maars Holding would provide production capacity and technological knowledge to produce partitioning systems and the Chinese partner would take care of the sales activities because of their knowledge of the Chinese market. This partnership did not last long due to a lack of cooperation and commitment from the side of the Chinese partner. The Chinese partner did not undertake any sales activity. In 2007 changes have taken place within Maars Holding. One of the most obvious changes was the buy-out of the Chinese partner. Maars Holding became 100% owner of Maars China. After the break-up, Maars China relocated its production facility and sales office. For Maars China the break up with the Chinese partner consequently resulted in the loss of knowledge of the Chinese market and culture. Maars Holding wanted full control over their subsidiary and therefore decided not to search for a new partner. For Maars Holding, Maars China is the only subsidiary with a production facility. This makes the company more complex to manage. In the beginning, the support from Maars Holding was minimal. Maars Holding itself was in a transition phase (for example establishing a divisional structure, consolidation of business and activities).

After Maars Holding became 100% owner of Maars China, the performance of Maars China became more important for Maars Holding. The attention for the total performance of Maars China was increasing. A budgeting system, a financial target and goals were determined to measure the performance of Maars China. According to the financial report and top management of Maars China the performance of Maars China was not up to standard and improvement was necessary. Maars China was not sufficiently contributing to Maars Holding. The general problem is: how to improve the contribution of Maars China to Maars Holding?

Our interviews with employees of Maars China and Maars Holding from top to the bottom in combination with our own work experience within Maars Holding for a couple of weeks, provided us with significant information about the general problem.

We discovered that the inadequate performance of Maars China is caused by the following elements: The differences between the accounting systems of Maars Holding and Maars China.

A lack of collaboration between Maars Holding and Maars China (purchasing, marketing, R&D, etc)

The SBU organizational structure of Maars Holding is not suitable for Maars China (the organizational structure does not fit the complexity, size and culture of Maars China)

Missing a trade division to contribute to the financial goals.

Limited resources and knowledge (open vacancies, because it is hard to hire and keep well educated employees.)

Cultural differences between The Netherlands and China.

Understaffed departments (like R&D, Marketing, Back office support, purchasing, logistics and planning).

Lacking of product quality control (input and output both)

According to our interviews with the management of Maars China and Maars Holding, the cultural differences between The Netherlands and China play an important role in the general problem. The Chinese culture is more focused on groups than on individuals. Individual accountability is vague when the job description is not clear. This is the case with Maars China. Also the hierarchy is more embedded in the Chinese culture and employees only receive and accept orders from their direct supervisors. The internal communication lacks strength because the different departments are isolated and only communicate internally and not with each other.

The limited resources and knowledge of Maars China caused problems executing the strategy and reaching the goals. For example, the financial department has limited knowledge of the international and the Dutch accounting systems because the educational background of the financial supervisor is

based on the Chinese accounting system. There are still some important vacancies in the Maars China organization. For example, the function of buyer (vacant for a long time) still causes problems for the purchasing department. The educational background of some employees does not fit the job profiles well. Lack of employees with the right education limits the ability to solve the problem and improve the performance.

In our view, the biggest problem for Maars China is the absence of a clear strategy. Without a clear strategy it is difficult to achieve goals. A strategy gives the organization guidance for middle-long term actions.

Due to limited time and resources, Maars China decided to prioritize solving first two the problems. They have chosen for the accounting system and the organizational structure as research topics.

2.2 Research objectives

In this research we try to find a solution for the structural and accounting problems of Maars China. Our main objectives are to (re)develop an organizational structure that fits Maars China and to find a match between the Maars China and Maars Holding accounting systems.

2.3 Research problem definition

The problem formulation, e.g. the specific central question that will be answered in the assignment, is outlined in this section. As a subsidiary of Maars Holding, Maars China has to report on its finances to Maars Holding. One of the problems Maars Holding faces is the difference in accounting systems between China and The Netherlands. The main differences are: Maars Holding has a financial report on management accounting and a report on financial accounting, Maars China has only a report on financial accounting and does not have any knowledge of management accounting. Another difference is the content of the Dutch GAAP which differs from the Chinese GAAP. The difference in accounting systems results in incorrect or unclear financial reports to Maars Holding. Due to this unclear financial reporting, it is hard for Maars Holding to gain the necessary financial information to judge the financial condition of Maars China and to develop a strategy for the future. Investment decisions and expansion are also largely depending on correct financial information.

Maars China is a young foreign organization in China. To execute the strategy and reach the target, a smooth and well structured organization is a precondition. The current structure of Maars China is not clear for everyone and does not fit Maars China. The procedures as we know them from Maars Holding are not (yet) available in Maars China. This causes problems like accountability and responsibility for the different disciplines within the organization. For example: when a problem occurs it is hard to pinpoint it and solve it effectively, because of a lack of proper procedures and because it is unclear which discipline is accountable for a problem and/or solution.

The influence of communism is still visible in the work ethics of the Chinese. People have become frightened for responsibilities and are frequently stuck in inefficient procedures that are a result of the central planning of communism. Efficiency is often hard to find and work orders have to be relayed frequently before they are carried out. Employees can be incredibly obedient and work orders are often rendered literally. An order is an order, no further reflections are necessary. If work is not directly relayed, it does not happen. Employees do not give their own vision often and ask their executive permission for every little detail. Cooperation between employees is often impossible because of this. People do not accept anything from anyone except from their immediate executive. In the Western working culture employees are rewarded for personal development and taking responsibility.

The following aspects are to be taken into account in order to come to a well defined problem formulation.

The objective of the research can be categorized as a combination of a strategic and an operational objective, because it requires analysis of Maars Holding, Maars China and the environment. We will try to implement our results and recommendations into the organization's strategic and operational level.

Considering the rapidly changing environment and the complicated problems, we can only look for a solution to the current problems. This means we cannot develop a solution for problems that may occur in the future.

One of the main issues in our research is the difference between China and The Netherlands. How to target this difference and how to deal with this difference in relation to our research objective.

Based on the statements above, the problem formulations are defined as follows:

Problem 1: How to reorganize Maars China, a 100% daughter company of Maars Holding

Problem 2: How to improve the current accounting system of Maars China to fulfill the requirements of Maars Holding and Maars China?

2.4 Research questions

Both problems will be broken down into research questions.

Research questions concerning the organizational structure are:

- What is the current situation?
- What is the desired situation?
- What are the differences between the current situation and the desired situation and how to close this gap?

Research questions concerning the accounting system are:

- What is the current situation?
- What is the desired situation?
- What are the differences between the current situation and desired situation and how to close this gap?

2.5 Research approach

The research we will perform is defined as Exploratory Research. Exploratory research is used when one is seeking insights into the general nature of a problem, the possible alternative decisions, and relevant variables that need to be considered. The research method is highly flexible, unstructured and qualitative technique-wise (Aaker, Kumar & Day, 1995) though exploration researchers develop concepts more clearly, establish priorities, develop operational definitions, and improve the final research design. (Business research methods, Donald R. Copper/ Pamela S. Schindler, 2006).

The objective of exploration may be accomplished with different techniques. Both qualitative and quantitative techniques are applicable, but during this research qualitative techniques will be used to target the problem (for example: individual in-depth interviews, case studies, participant observation, expert interviewing).

The method of data collection is about the choice between primary and secondary data. According to Aaker, Kumar & Day primary data is data collected to address a specific research objective. Secondary data is data collected for some purpose other than the present research purpose.

In general, there are three sources of secondary data collection: the company information system, data-bases of other organizations and syndicated data resources.

To have a clear picture of Maars China, we will start with a “helicopter view” of the organization. To do this, we will have interviews with different employees within Maars China and Maars Holding. Information from the top management will give us a good picture of the organizational condition of Maars China. They have access to specific company confidential information. We will try to pinpoint the core problem and link it with our research topics.

After that we start with a qualitative collection of primary data to formulate our research problem. Because the problem is quite specific for Maars China, primary data will be an important resource.

Next, we will make an analysis of the current situation of Maars China. Then compare the current situation with the theory of what it should be. This comparison will provide us with aspects of the problem and how to solve them. Both primary and secondary data will be used.

Then we will suggest improvement solutions for both research problems.

Furthermore, an integral implementation plan will be presented.

The final step is to link the solution to the general problem. The aim is to find out whether our recommendation and solution will support solving the general problem. Furthermore, we will provide information for additional research on how to deal with the general problem.

2.6 Research structure

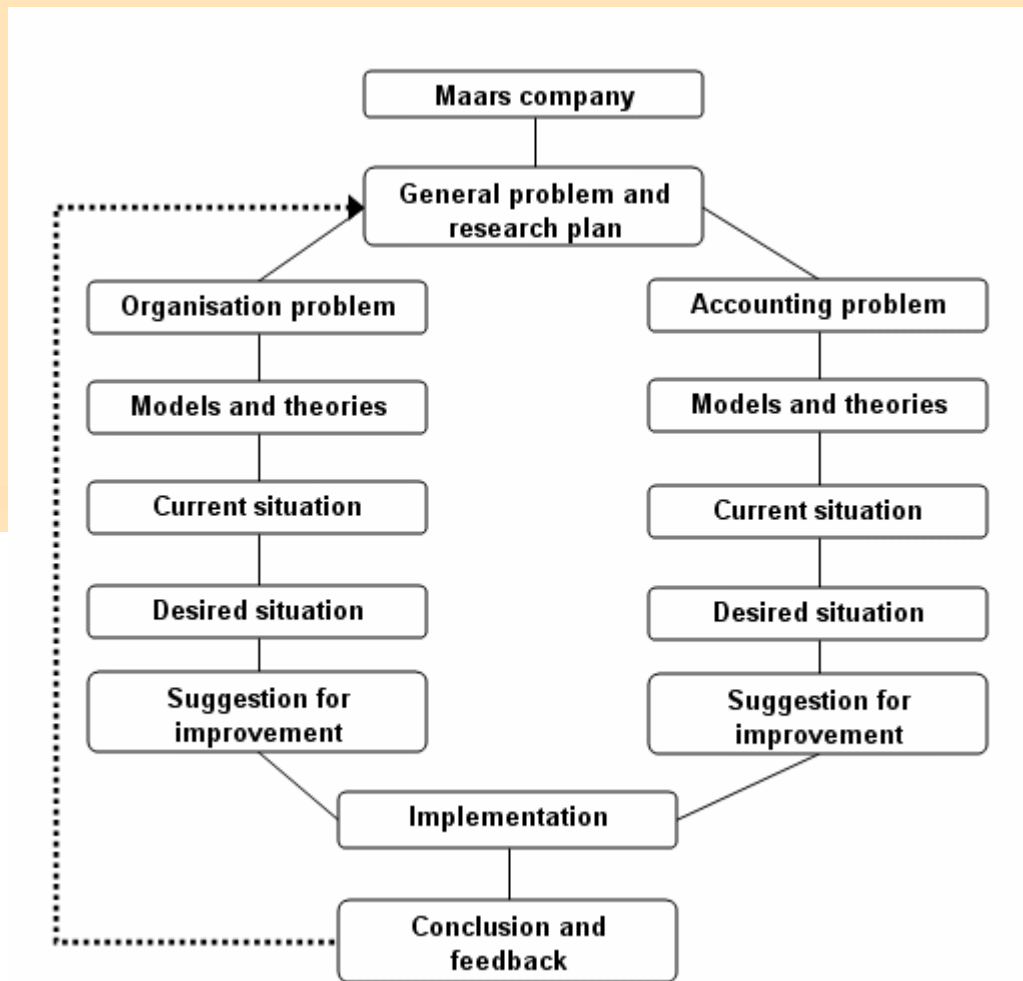


Figure 1 Research structure

3. Organization structure

In this chapter we start to discuss the theories and models which will help us to understand the problem and provide us tools to solve the problem. Then we start to analyse the current situation of Maars China's organization. After that we put the theory into the practice. What is the desired situation according to the theories and how to get there. In the final step a comparison between the current situation and the theory will take place. The comparison will provide us a clear picture which aspect of organization should be changed according to the needs of Maars China and the environment which in the organization execute their strategy and reach the goals. Our analysis will focus on the organization structure of Maars China.

3.1 Models and theories organization structure

3.1.1 GAP analysis model

GAP analysis is a very basic tool for reviewing an organization's position. It is based on three questions:

1. Where are we now (current situation)
2. Where do we want to get to (desired situation)
3. How can we get there (suggestion for improvement)

Although basic, these questions can be useful on a number of levels. First, there are very general, this means that most managers should be able to give their own opinion and able to answer at least two of the three questions. Second, regardless of whether the responses indicate low or high degree of consensus, this information is useful for our research.

3.1.2 Organization theory model

Richard L. Daft defines the organization as social entities that are goal directed, are designed as deliberately structure and co-ordinated activity systems and are linked to the external environment. An organization exists when people interact with one another to perform essential functions that help attain goals. Internally it is important that the interaction between the departments are smoothly. Boundaries between departments become more flexible and rapid response to the external change is necessary. An organization cannot exist without interacting with customers, suppliers, competitors and other elements of the external environment.

The next step for understanding organizations is to look at dimensions that describe specific organizational design traits. These dimensions describe organizations much the same way that personality and physical traits describe people. Organizational dimensions fall into two types: structural and contextual. Structural dimensions provide labels to describe the internal characteristics of an organization. They create a basis for measuring and comparing organizations. Contextual dimensions characterize the whole organization, including its size, technology, environment, and goals. They describe the organizational setting that influences and shapes the structural dimensions. Contextual dimensions can be confusing because they represent both the organization and the environment. Contextual dimensions can be envisioned as a set of overlapping elements that underlie an organization structure and work process. The contextual and structural dimensions discussed below are interdependent. For example, large organization size, a routine technology, and a stable environment all tend to create an organization that has greater formalization, specialization, and centralization. To understand and evaluate organizations, we have to examine both structural and contextual dimensions.

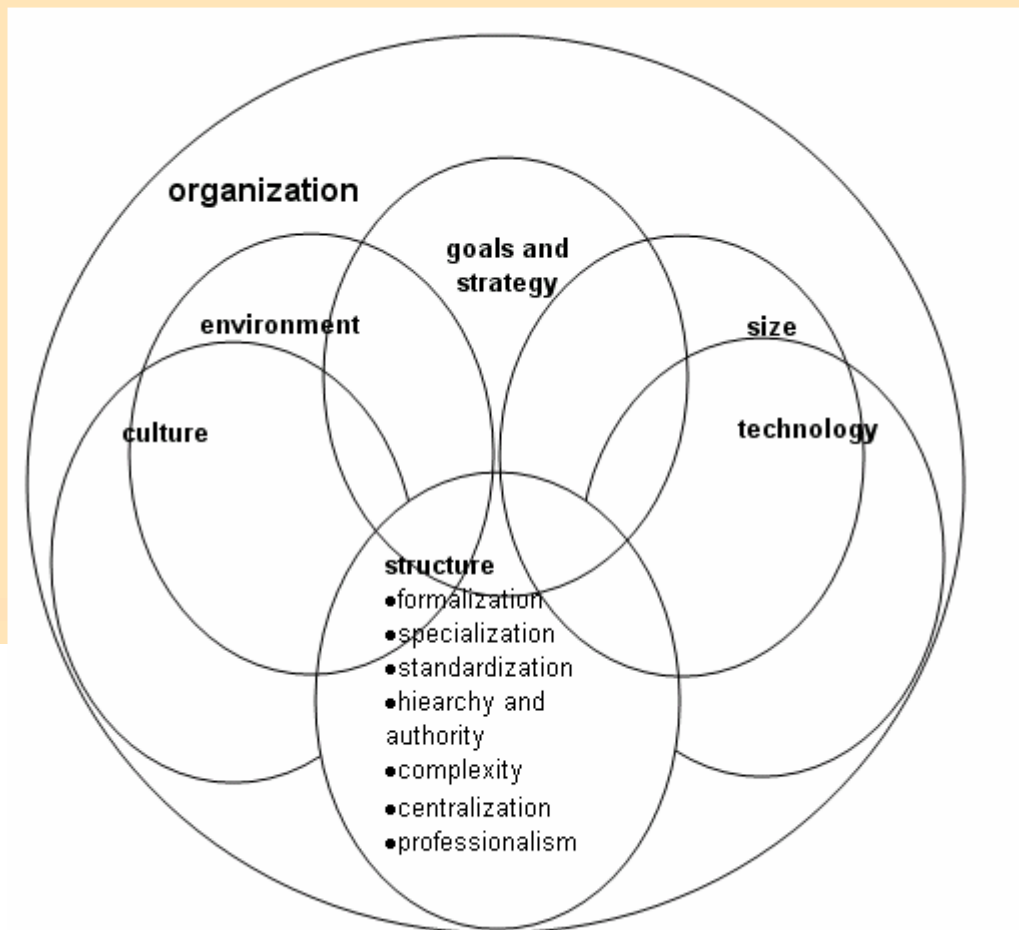


Figure 2 Interacting contextual and structural dimensions of organization design

Contextual dimensions includes: Size, organizational technology, environment, organization goals and strategy and organization's culture.

Size

Size is the organization's magnitude as reflected in the number of people in the organization. It can be measured for the organization as a whole or for specific components, such as a plant or division. Because organizations are social systems, size is typically measured by the number of employees. The stage of organization development is related to the size of organization.

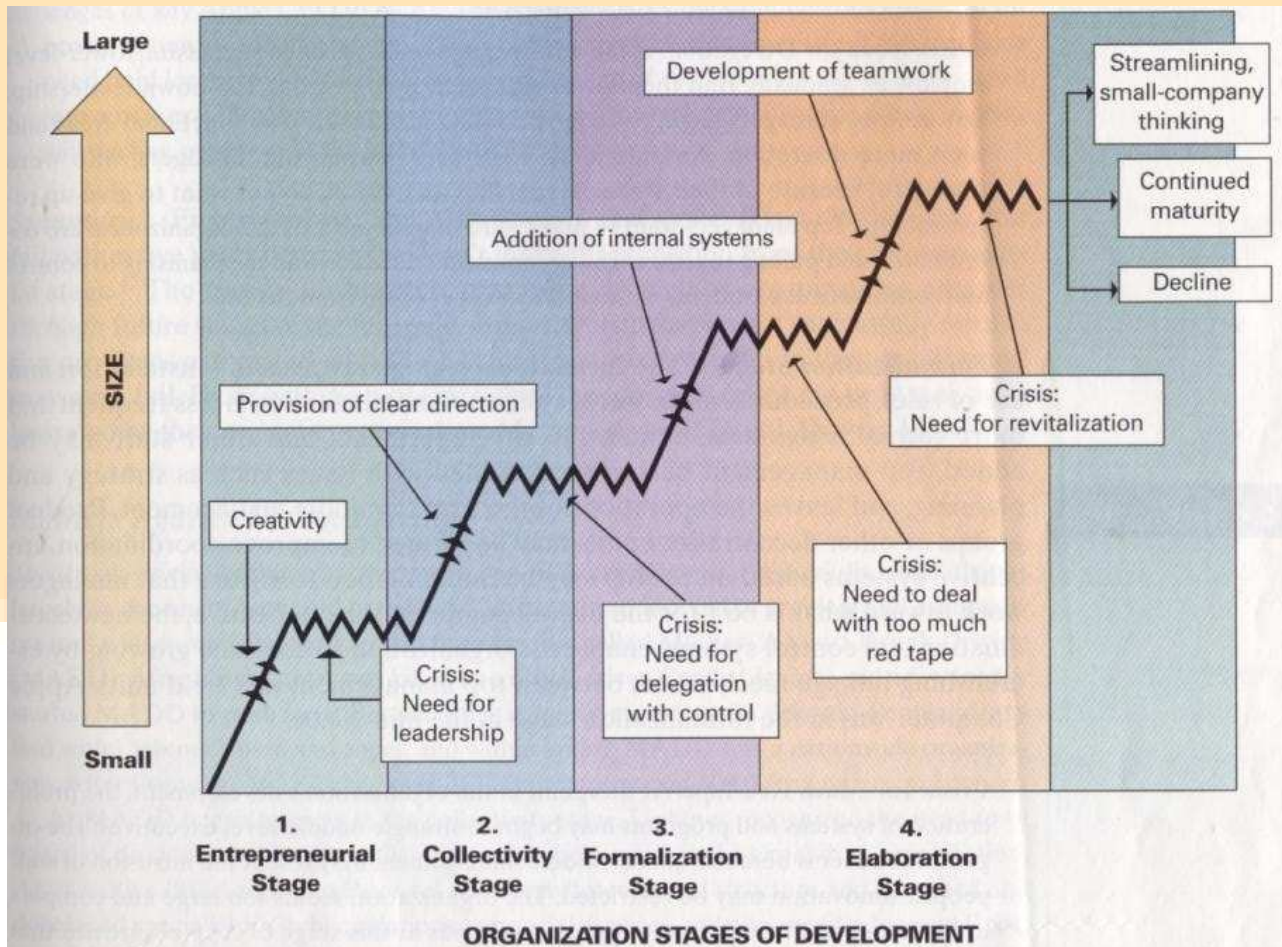


Figure 3 Organization stage of development

Organizational technology

Organizational technology is the nature of the production subsystem, and it includes the actions and techniques used to change organizational inputs into outputs. We make distinction of two kind of organizational technology: production and departmental technology.

Production technology

The first and most influential study of production technology was conducted by Joan Woodward, a British industrial sociologist. Woodward developed a scale and organized the firms according to technical complexity of the production process. Technical complexity represents the extent of mechanization of the manufacturing process. High technical complexity means most of the work is performed by machines. Low technical complexity means workers play a larger role in the production process. Woodward's scale of technical complexity originally had ten categories. These categories were further consolidated into three basic technology groups.

- Group 1: small-batch and unit production. These firms tend to be job shop operations that manufacture and assemble small orders to meet specific needs of customers. It relies heavily on the human operator.
- Group 2: large-batch and mass production. It is a manufacturing process characterized by long runs of standardized parts. Output often goes into inventory from which orders are filled.

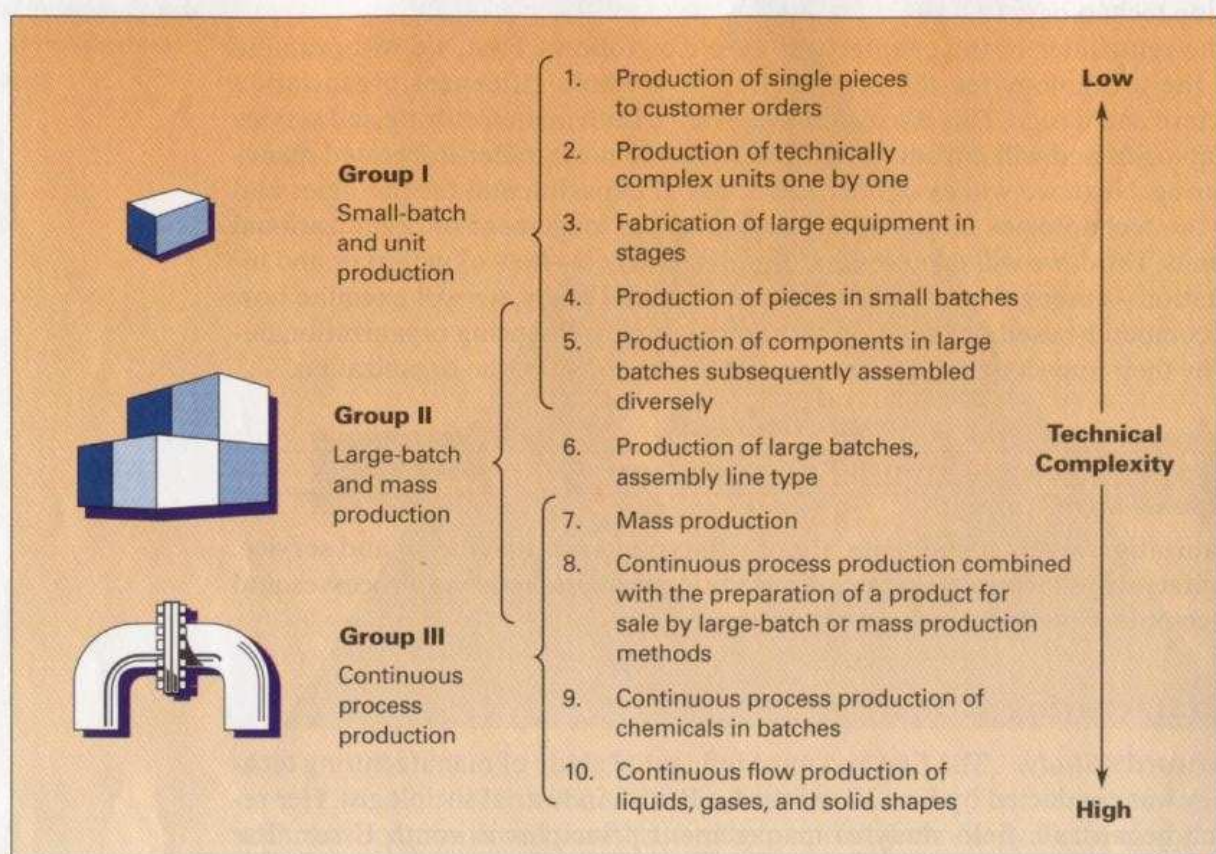


Figure 4 Technology complexity model

- Group 3: continuous process production. In continuous process production the entire process is mechanized. There is no starting and stopping. This represents mechanization and standardization on a step beyond those in an assembly line. Automated machines control the continuous process, and outcomes are highly predictable.

Departmental technology

Departmental technology tends to be associated with a cluster of departmental characteristics, such as the skill level of employees, formalization, and pattern of communications. The framework that has had the greatest impact on the understanding of departmental technologies was developed by Charles Perrow. Perrow's specified two dimensions of departmental activities that were relevant to organization structure. The first is the number of exceptions in the work. This refers to task variety, which is the frequency of unexpected and novel events that occur in the conversion process. The second dimension of technology concerns the analyzability of work activities. The dimensions of variety and analyzability form the basis for four major categories of technology: routine, craft, engineering, and non routine.

- Routine technologies are characterized by little task variety and the use of objective, computational procedures. The tasks are formalized and standardized.
- Craft technologies are characterized by a fairly stable stream of activities, but the conversion process is not analyzable or well understood. Task requires extensive training and experience because employees respond to intangible factors on the basis of wisdom, intuition, and experience.
- Engineering technologies tend to be complex because there is substantial variety in the tasks performed. However, the various activities are usually handled on the basis of established formulas, procedures, and techniques. Employees normally refer to a well-developed body of knowledge to handle problems.
- No routine technologies have high task variety, and the conversion process is not analyzable or well understood. In no routine technology, a great deal of effort is devoted to analyzing problems and activities.

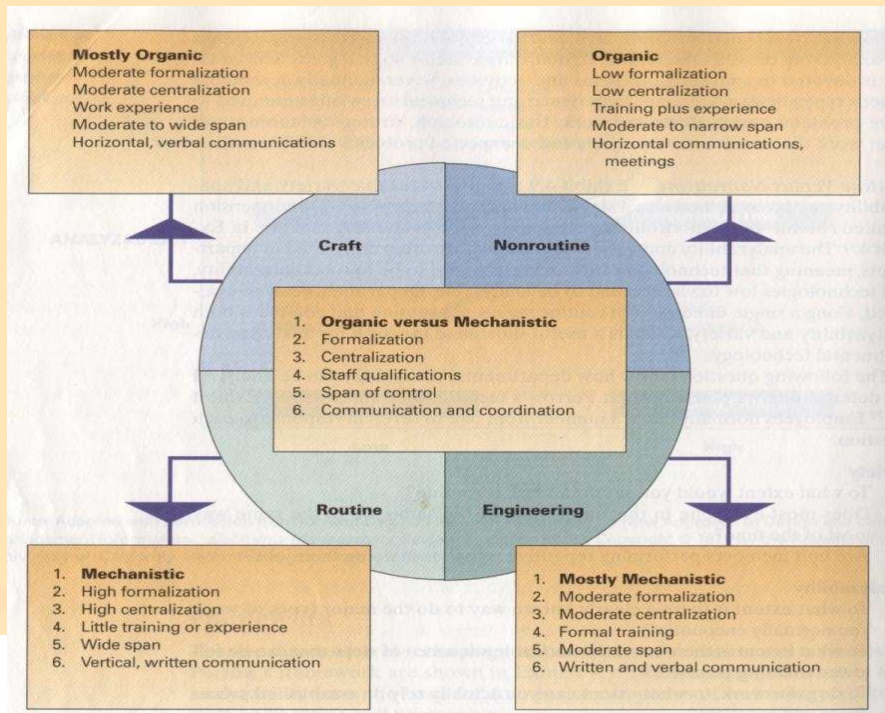


Figure 5 The relation between departmental technology and organization characteristics

The environment

The environment includes all elements outside the boundary of the organization. Environmental elements that affect an organization most are often other organizations (suppliers, competitors, etcetera). The ways environmental uncertainty influences organizational characteristics can be summarized as follow. The change and complexity dimensions are combined and illustrate four levels of uncertainty. The low uncertainty environment is simple and stable. Organizations in this environment have few departments and a mechanistic structure. In a low-moderate uncertainty environment, more departments are needed along with more integrating roles to coordinate the departments. Some planning and imitation may occur. Environments that are high-moderate uncertainty are unstable but simple. Organizations structure is organic and decentralized. Planning is emphasized and managers are quick to imitate successful attributes of competitors. The high uncertainty environment is both complex and unstable and is the most difficult environment from a management perspective. Organizations are large and have many departments, but they are also organic. A large number of management personnel are assigned to coordination and integration, and the organization uses boundary spanning, imitation, planning and forecasting.

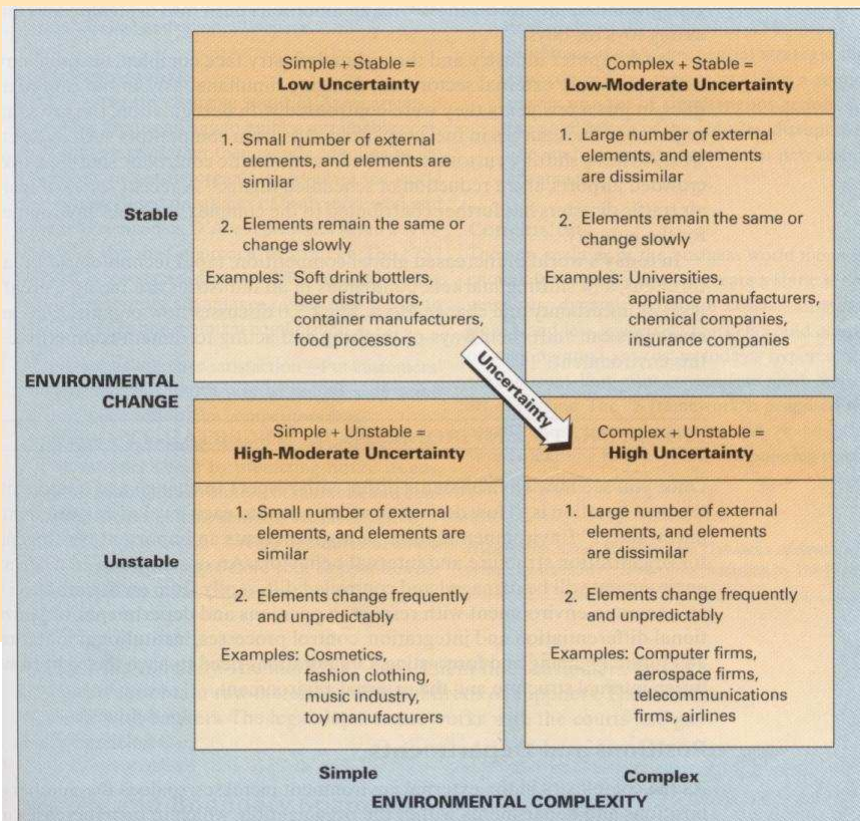


Figure 6 Environmental change

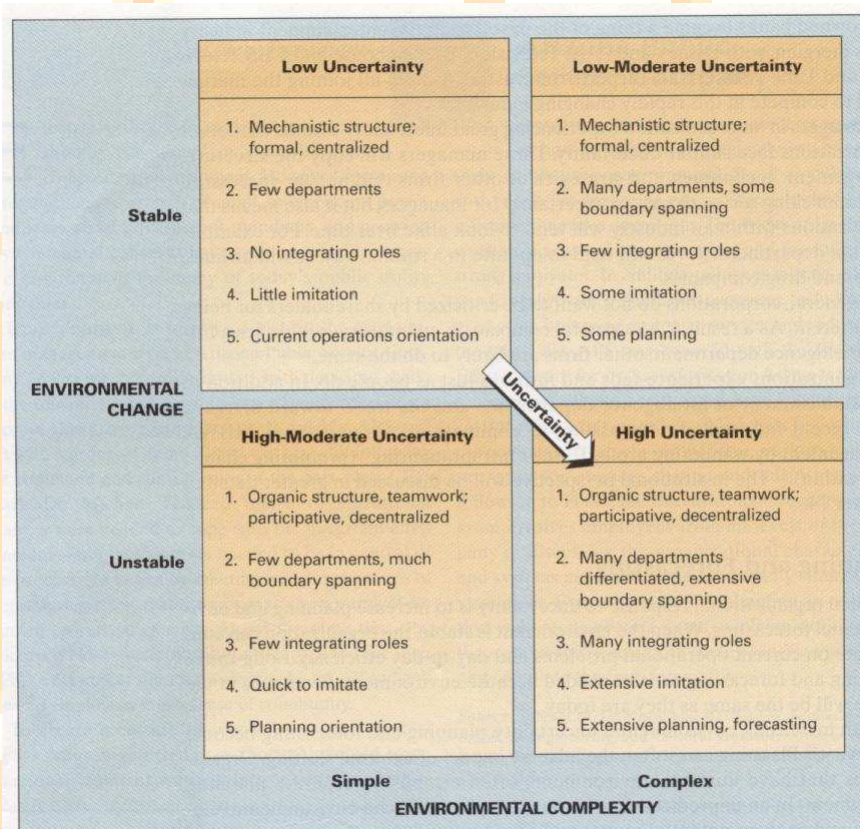


Figure 7 Environmental complexity

The organization's goals and strategy

The organization's goals and strategy define the purpose and competitive techniques that set it apart from other organizations. Goals are often written down as an enduring statement of company intent. A strategy is the plan of action that describes resource allocation and activities for dealing with the environment and for reaching the organization's goals.

Organizational purpose

Organization purpose can be divided into two topics, namely official goals and operative goals. Both are important for organization, but they serve very different purposes.

Official goals

Organizations are created and continued in order to accomplish something. All organization exists for a purpose. The overall goal for an organization is often called the mission, the organization's reason for existence. The mission describes organization's vision, its shared values and beliefs, and its reason for being. The mission refers to the formally stated definition of business scope and outcomes what the organization is trying to achieve.

One of the primary purposes of mission is to serve as a communication tool. The mission communicates to current and prospective employees, customers, investors, suppliers, and competitors what the organization stand for and what it is trying to achieve. Companies where managers are sincerely guided by mission statements focus on their social purpose, typically attract better employees, have better relationships with external parties, and perform better in the marketplace over the long term.

How to formulate Mission according to theories¹

An organization's mission or purpose is the answer to the question "why?" Different questions will illicit different facets or flavors of mission. For example:

Why are we doing this? Brings out purpose, motives, and intention. A mission is usually meant to define internal motivation - it's meant to align and engage employee in the organization, rather than helping define an orientation to outside customers.

Begins to identify the values and interests that drive the organization. It is designed to promote the brand's purpose image as part of a reason for doing business, for public relations purposes or to attract employees or investors. That's an external message defined in terms of the target market or the competition.

With what aspects of this work do I most identify? This type of reasoning will not be useful for aligning workplace structures, systems, processes and cultures. It is more like an advertisement, and can be effective when it represents an operational reality, communicates honest values, and helps the audience make meaning.

How to formulate vision according to theories?

Vision and Mission are the inspiring words chosen by leaders to clearly and concisely convey the direction of the organization. By crafting a clear mission and vision, you can powerfully communicate your intentions and motivate your team or organization to realize an attractive and inspiring common vision of the future. So it crystallizes top management's view of firm's long-term direction, helps managers avoid visionless or rudderless decision-making, conveys organizational purpose to motivate employees to do their very best and helps keep direction-related actions of lower-level managers on common path.

Essential Keys stones what must be found back in a vision statement are:

- Firm's future makeup
- Forming vision of firm's future in 5-10 years
- Inject sense of purpose into firm's activities

¹ <http://www.abetterworkplace.com/027.html>

- Provide long – term direction
- Give firm strong identity for its customers
- Decide “who we are, what we do, & where we are headed”

Vision and mission-making work can thus serve the firm in carrying out their leadership role, unifying their efforts and building alignment and loyalty among employees. When all employees are committed to firm’s long-term direction, optimum choices on business decisions are more likely because individuals & teams know the intent of a firm’s strategic vision and the daily execution of strategy will be improved².

Operative goals designate the ends sought through the actual operating procedures of the organization and explain what the organization actually is trying to do. Operative goals typically pertain to the primary tasks an organization must perform. These goals concern overall performance, boundary spanning, maintenance, adaptation, and production activities.

After formulating the vision and mission of a firm, the next step is setting objectives. The purpose of setting the objectives is to convert into performance targets, create yardsticks to track performance, establish performance goals and pushing a firm to be inventive, intentional and focused. The criteria for setting the objectives are specific, measurable, challenging but receivable and dated. We can make two kinds of distinction about objectives, namely financial and strategic objectives. Financial objectives are outcomes that relate to improving firm’s financial performance and strategic objectives are outcomes that will result in a greater competitiveness & stronger long-term market position. Another essential part of strategic objective is that it relates to a firm’s competitiveness, market position and competitor focused.

Goals are important because goals can provide employees with a sense of direction, so that they know what they are working toward. This can help motivate employees toward goal accomplishment. Another important purpose of goals is to act as guidelines for employee behavior and decision making. Appropriate goals can act as a set of constraints on individual behavior and actions so that employees behave within boundaries that are acceptable to the organization and larger society. They help to define the appropriate decisions concerning organization structure, innovation, employee welfare, or growth. The level of organizational performance, whether in terms of profits, units produced, degree of employee satisfaction, level of innovation, or number of customer complaints needs a basis for evaluation. Operative goals provide this standard for measurements

Organization's culture

The management of cultural diversity is becoming a significant issue for companies of all sizes, not just multinationals. The rise of global business, with an increasing number of joint ventures and cross-border partnerships, greater cooperation within the European Union, and the business need to embrace people from a variety of ethnic backgrounds and cultures, have all contributed to the need to develop a cultural sensitivity. The transfer of Western values to the East, for example, can be inappropriate, and corporate culture and management practices may need modifying to suit local conditions. Hofstede's work has provided a framework for understanding cultural differences.

Hofstede has identified four dimensions for defining work-related values associated with national culture: power distance; individualism/collectivism; masculinity/femininity; uncertainty avoidance. He devised the Values Survey Module for use in researching cultural differences, and this has been used by many other researchers in their work.

² http://www.mindtools.com/pages/article/newLDR_90.htm

Hofstede defines culture as being collective but often intangible. It is, however, what distinguishes one group, organization or nation from another in Hofstede's view, culture is made up of two main elements: the internal values of culture - which are invisible - and external elements of culture - which are more visible- and are known as practices. The latter include rituals (such as greetings), heroes (such as people or television shows) and symbols (such as words and gestures). The cultures of different organizations can be distinguished from one other by their practices, while national cultures can be differentiated by their values.

Hofstede carried out his research using a questionnaire called the Values Survey Module. From the results, he drew up indices which reflect the national cultural characteristics or dimensions of a country. (All the quotations in this section are taken from Hofstede's Cultures and Organizations, 1991.)

Power distance is defined by Hofstede as "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally".

In low power distance nations inequalities among people will tend to be minimized, decentralization of activities is more likely, subordinates expect to be consulted by superiors, and privileges and status symbols are less evident. Conversely, in high power distance nations inequalities among people are considered desirable, there is greater reliance by the less powerful on those who hold power, centralization is more normal, and subordinates are likely to be separated from their bosses by wide differentials in salary, privileges and status symbols.

Individualism pertains to societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family. Collectivism as its opposite pertains to societies in which people from birth onwards are integrated into strong, cohesive in groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty.

With the rise in global business, many people are working with, or managing, individuals and groups from cultures other than their own. Hofstede is keen to emphasize that the dimensions are not a prescription or formula but merely a concept or framework. They equip us with an analytical tool to help us understand intercultural differences. For example, the practical experience of many multinationals in building international teams can be explained in terms of Hofstede's framework.

Knowing about such differences can help to avoid conflict in international management. Hofstede's framework shows that it is not safe to assume that apparently similar countries in the same region, for example The Netherlands and China have similar cultures.

The cultural dimensions also provide us with a convenient shorthand term to illustrate a characteristic of a particular organization or country. For example if someone refers to a country as having a 'high feminine index' it suggests that people in that country characteristically value having a good working relationship with their supervisor and with their co-workers, living somewhere they and their family want to live and having job security.

An organization's culture is the underlying set of key values, beliefs, understandings and norms shared by employees. These underlying values may pertain to etceterahical behaviour, commitment to employees, efficiency, or customer service, and they provide the glue to hold organization members together. An organization's culture is unwritten but can be observed in its stories, slogans, ceremonies, dress, and office layout.

Organization culture can be assessed along many dimensions, such as the extent of collaboration versus isolation among people and departments, the importance of control and where control is concentrated. Four categories of culture associates with these differences are adaptability, mission, clan, and bureaucratic.

The Adaptability culture is characterized by strategic focus on the external environment through flexibility and change to meet customer needs. The culture encourages entrepreneurial values, norms, and beliefs that support the capacity of the organization to detect, interpret, and translate signal from the environment into new behaviour responses.

The Mission culture is characterized by emphasis on a clear vision of the organization's purpose and on the achievement of goals, such as sales growth, profitability, or market share, to help achieve the purpose.

The clan culture has primarily focus on the involvement and participation of the organization's members and on rapidly changing expectations from the external environment.

The bureaucratic culture has an internal focus and a consistency orientation for stable environment. This organization has a culture that supports a methodical approach to doing business. Symbols, heroes, and ceremonies support cooperation, tradition, and following established policies and practises as ways to achieve goals.

Culture plays an important role in creating an organizational climate that enables learning an innovative response to challenges, competitive threats, or new opportunities. A strong culture that encourages adaptation and change enhances organization performance by energizing and motivating employees, unifying people around shared goals and a higher mission, and shaping guiding employee behaviour so that everyone's actions are aligned with strategic priorities.

Structural dimensions

- Formalization pertains to the amount of written documentation in the organization. Documentation includes procedures, job descriptions, regulations and policy manuals. These written documents describe behaviour and activities. Formalization is often measured by simply counting the number of pages of documentation within the organization.
- Specialization is the degree to which organisational tasks are subdivided into separate jobs. If specialization is extensive, each employee performs only a narrow range of tasks. If specialization is low, employees perform a wide range of tasks in their jobs.
- Standardization is the extent to which similar work activities are performed in a uniform manner, in a highly standardized organization like McDonald's, work content is described in detail, and similar work is performed the same way at all locations.
- Hierarchy and authority describe who reports to whom and the span of control for each manager. The hierarchy is depicted by the vertical lines on an organization chart. The hierarchy is related to span of control.
- Complexity refers to the number of activities or subsystems within the organization. Complexity can be measured along three dimensions: vertical, horizontal, and spatial. Vertical complexity is the number of levels in the hierarchy. Horizontal complexity is the number of job titles or departments existing horizontally across the organization. Spatial complexity is the number of geographical locations.
- Centralization refers to the hierarchical level that has authority to make a decision. When decision making is kept at the top level, the organization is centralized. When decisions are delegated to lower organizational levels, it is decentralized.

- Professionalism is the level of formal education and training of employees. Professionalism is considered of formal education and training of employees requires long periods of training to hold jobs in the organization.

After collecting and analysing the structural and contextual dimensions of Maars China, we continued our research to find out what are the factors and pressures for organizational change. This analyse will provide us information's about the drives behind the organizational change.

3.1.3 Organization pressure theory

According to the organization pressure theory, organization and human systems of all sorts are complex and evolving. In this view, the objective of change management is the need to increase an organization's adaptive capacity, since how an organization might achieve shareholder value, and the knowledge needed for achieving this, is likely to change over time. Therefore, building in the capacity to both respond to and shape, external changes is an alternative rationale for explaining why managers conduct change.

There is variety of pressures to change the organization: environmental pressure and organizational pressure. Environmental pressure is external related and organizational pressure is internal related. We focus on six types of environmental pressures for change that organization faces: pressures to carry out fashionable management changes; pressures that are forced or mandated on the organization from outside agencies; broad changes in geopolitical relationships necessitating changes in organizational operations; pressures associated with declining markets; hypercompetitive business pressures; and the pressure to maintain corporate reputation and credibility with stakeholders.

Organizational pressures involve growth pressures; pressures related to the need for integration and collaboration; pressures around establishing or re-establishing organizational identities in new eras, "new broom" pressures associated with the appointment of new CEOs, and a variety of power and political pressures.

3.1.4 Organization structure theory

Our solution is focused to improve the organization structure of Maars China. There are many organization models, so we will consider all these models. The overall design of organization structure indicated three things: required work activities, reporting relationships and departmental groupings. There are three key components in the definition of organization structure (Daft, 2007):

- Organization structure designates formal reporting relationships, including the number of levels in the hierarchy and the span of control of managers and supervisors.
- Organization structure identifies the grouping together of individuals into departments and of departments into the total organization
- Organization structure includes the design of systems to ensure effective communication, coordination, and integration of efforts across departments.

These three elements of structure pertain to both vertical and horizontal aspects of organizing. An ideal structure encourages employees to provide horizontal information and coordination where and when it is needed. But in reality the organization has chosen between internal efficiency (a strength of the functional structure) and for external adaptation (a strength of the divisional structure).

Functional structure

In a functional structure, activities are grouped together by common function from the bottom to the top of the organization. For example, all engineers are located in the engineering department, and the manager of engineering is responsible for all engineering activities. The same for financial, sales, etcetera.

Context
Structure: functional Environment: low uncertainty, stable Technology: routine, low interdependence Size: small to medium Strategy, goals: internal efficiency, technical quality
Internal systems
Operative goals: functional goals emphasis Planning and budgeting: cost basis-budget, statistical reports Formal authority: functional managers
Strengths
Allows economies of scale within functional departments Enables in-depth skill development Enables organization to accomplish functional goals Is best in small to medium-sized organizations Is best with only one or a few products
Weaknesses
Slow response time to environmental changes May cause decisions to pile on top, hierarchy overload Leads to poor horizontal coordination among departments Results in less innovation Involves restricted view of organizational goals

Divisional structure

The term divisional structure is used here as the generic term for what is sometimes calls a product structure or strategic business units. With this structure, divisions can be organized according to individual products, services, product groups, major projects or programs, divisions, business, or profit centres. The distinctive feature of a divisional structure is that grouping is based on organizational outputs.

Context
Structure: divisional Environment: moderate to high uncertainty, changing Technology: nonroutine, high interdependence among departments Size: large Strategy, goals: external effectiveness, adaptation, client satisfaction.
Internal systems
Operative goals: product line emphasis Planning and budgeting: profit centre basis-cost and income Formal authority: product managers
Strengths
Suited to fast change in unstable environment Leads to client satisfaction because product responsibility and contact points are clear Involves high coordination across functions Allows units to adapt to differences in products, regions, clients Best in large organizations with several products Decentralizes decision making
Weaknesses
Eliminated economies of scale in functional departments Leads to poor coordination across product lines

Eliminated in-depth competence and technical specialization
Makes integration and standardization across product lines difficult

Geographical structure

Another basis for structural grouping is the organization's users or customers. The most common structure in this category is geography. Each region of the country may have distinct tastes and needs. Each geographic unit includes all functions required to produce and market products in that region. For multinational corporations, self-contained units are created for different countries and parts of the world.

The strengths and weaknesses of a geographic divisional structure are similar to the divisional organization characteristics. The organization can adapt to specific needs of its own region, and employees identify with regional goals rather than with national goals.

Hybrid structure

As a practical matter, many structures in the real world do not exist in the pure form of functional, divisional, or geographic. An organization's structure may be multifocused in that both product and function, or product and geography, are emphasized at the same time. One type of structure that combines characteristics of both is called the hybrid structure.

Context
Structure: hybrid Environment: moderate to high uncertainty, changing customer demands Technology: routine or nonroutine, with some interdependencies between functions. Size: large Strategy, goals: external effectiveness and adaptation plus efficiency within some functions.
Internal systems
Operative goals: product line emphasis, some functional emphasis Planning and budgeting: profit centre for divisions, cost basis for central functions Formal authority: product managers; coordination responsibility resting with functional managers
Strengths
Allows organization to achieve adaptability and coordination in product divisions and efficiency in centralized functional departments Results in better alignment between corporate and division-level goals Achieves coordination both within and between product lines
Weaknesses
Has potential for excessive administrative overhead Leads to conflict between division and corporate departments

Matrix structure

Another way to achieve focus on multiple outcomes is with the matrix structure. The matrix can be used when one sector of the environment requires technological expertise, for example, and another sector requires rapid change within each product line. The matrix structure often is the answer when organizations find that neither the functional, divisional, geographical, nor hybrid structures combined with horizontal linkages mechanisms will work.

Context
Structure: matrix Environment: high uncertainty Technology: nonroutine, many interdependencies Size: moderate, a few product lines Strategy, goals: dual-product innovation and technical specialization
Internal systems
Operative goals: equal product and functional emphasis Planning and budgeting: dual systems-by function and by product line

Formal authority: joint between functional and product heads
Strengths
<p>Achieves coordination necessary to meet dual demands from environment</p> <p>Flexible sharing of human resources across products</p> <p>Suited to complex decisions and frequent changes in unstable environment</p> <p>Provides opportunity for functional and product skill development</p> <p>Best in medium-sized organizations with multiple products</p>
Weaknesses
<p>Causes participants to experience dual authority, which can be frustrating and confusing</p> <p>Means participants need good interpersonal skills and extensive training</p> <p>Is time-consuming; involves frequent meetings and conflict resolution sessions</p> <p>Will not work unless participants understand it and adopt collegial rather than vertical-type relationships.</p> <p>Requires dual pressure from environment to maintain power balance</p>

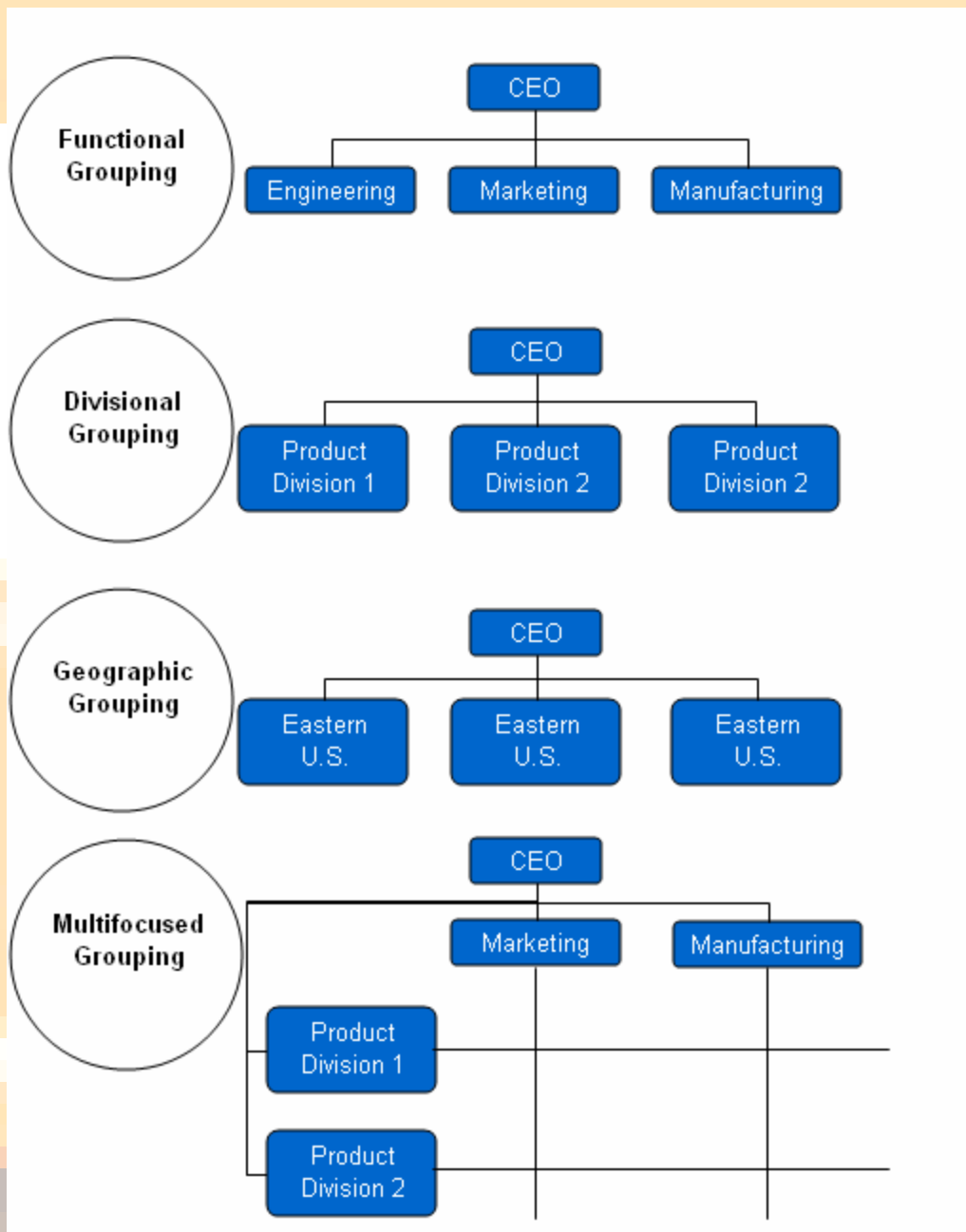


Figure 8 Structural design options for grouping employees into departments



Maars China Project 2008: Lanxess Shanghai

3.2 *Current situation*

First we analyze the structural dimension of Maars China. This analysis tries to describe the current organizational structure in detail. Next, we analyze the relation between the current organizational structure and the contextual dimension, size, organizational technology, environment, goals and strategy and organizational culture. After that we put the organizational pressure model into practice. This includes internal and external pressure for organizational change. In the last part we summarize the research results of the current situation.

3.2.1 Structural dimension

Formalization

The current level of formalization of Maars China is low compared to that of Maars Holding. The procedures, job descriptions, regulations and policy manuals are either lacking or unclear. We observed that very little is documented. The top management has kept it only in their minds. The formalizations that exist are copied from Maars Holding and then adapted somewhat. This caused problems; for example, the unclear job description has caused little accountability on the part of the employees. Due to the Chinese culture, the employees have no initiative. The employees are often spoken to in detail by their direct supervisor. This means that formalization will be a very extensive process and that all the details will have to be written down. This makes the organization very bureaucratic and hierarchic. The interdepartmental communication is practically non-existent. The departments are very isolated and there is no communication procedure.

Specialization

The lack of documented job descriptions makes it difficult to analyze the level of specialization with Maars China. Interviews with managers and our observations on the work floor provided us with a lot of insight in the level of specialization with Maars China. In general, the specialization with Maars China is low. Employees of small to medium companies have a large number of tasks. The problem is that these tasks are not documented. The production floor is divided in sections (pre-assembly, painting, glass washing, etcetera). When employees of the pre-assembly department finish their work, they are assigned to help other departments. The level of skills and knowledge of what is needed to fulfill the tasks is low. In other words, the workplace and the tasks of the employees on the work floor depend on the situation. The specialization of employees with an office job (white collar) is higher. For example, the employees of the financial department have a narrow range of tasks. They only execute tasks related to financial issues. The specialization level of the top management is also very low. The job description is vague, because it is hard to define their jobs in details. The top management is responsible for the operation of the whole organization.

Standardization

The standardization of Maars products is high. Location independently, Maars products are produced the same way. The technology is company specific. The knowledge and skills of the employees on the work floor is instigated by Maars China itself. The product and technology standardization is high, because the technology is company specific and the product is not customized. On the other hand, standardization of other issues like HR policies, rewarding policies, financial reports or internal communication is lacking. The cultural aspect has played an important role. The lack of documentation on formalization is not in favor of standardization.

Hierarchy and authority

Despite Maars China being a small to medium company, hierarchy and control is high. For many tasks permission of different people and departments is needed. For example, the payments: the person responsible for payments needs approval of the financial supervisor, a top manager and his coworkers who checked the bills. We can explain this high level of control with communism and the Chinese culture. In the Chinese state, company control is a very important issue. All the systems are focused on building up an extensive control mechanism. The Chinese government needs this extensive control mechanism, because they are not able to control all the state companies by themselves. They also need this control system to evaluate and guide the central planning. The high but unclear hierarchy and authority of Maars China is also related to accountability and the level of independence of its employees. Maars China expects employees on all levels to be independent. In reality, this is not the case. Especially on the work floor employees are very anticipative and need orders in detail from their direct supervisor. Employees are anticipative because they are afraid of punishment or accountability for their own independence. Our informal interview with employees on the work floor showed us that these employees have no initiative because they think that if they do nothing without a direct order, they cannot do anything wrong. The internal reporting and communication structure is very hierarchic and bureaucratic. Before the information reaches the right person, there is a long way to go. The communication between departments goes through the highest manager of each department. Only they have the authority to let things happen. The authority is high, because the departments are isolated and the authority of each manager is limited to their own department. The employees only accept orders from their direct supervisors.

Complexity

Maars China has two divisions: the sales and the manufacturing division. Vertically, the organizational structure can be divided into three main layers: top management (GM and the manufacturing manager), middle management (the department managers), and operational staff (people on the work floor for example). Horizontally, the organization includes the following main departments: Sales, Project, HR, Finance, Production, Engineering, Logistic, Purchasing, and Planning. Compared to Maars Holding, the horizontal complexity is low. The basic departments and positions are taken. All these departments are needed for the daily operation. The spatial complexity is very low; there are two geographical locations, a sales office in Shanghai and a factory near Shanghai (Kunshan). In this sense, the spatial complexity is not difficult to manage.

Centralization

The decision making process is a good indicator for measuring whether Maars China is centralized. As we mentioned above, the organization is hierarchic and only the top and middle management have the authority to make decisions and let things happen. In this light, Maars China is highly centralized. In general, the employees of Maars China are very anticipative. This makes it difficult to delegate the decision making to lower levels. All decisions are made on a top management level. Orders and decisions from the top are always accepted, also if they are wrong. The communication is often top down.

Control

The current control mechanism is extensive, but efficiency and effectiveness are low. For example, the purchasing policy: a buyer needs many approvals before he can execute an order. But the controllers who have the authority to approve the order do not have the necessary knowledge and information to assess the order.

Professionalism

For employees on the work floor the average education level is very low. The skills and knowledge of these employees are company specific because the products of Maars China are unique. A high formal education and training is not necessary to fulfill the job. The educational level of middle management and other white collar positions is high compared to the average educational level in China. In general, the middle managers have bachelor degrees. Their skills and knowledge are generic. This means that their knowledge and skills are not (company) specific. For example the employees of the financial department can use the same knowledge and skills to execute financial tasks in another company. The formal education and training requires long periods of training to fulfill the job. The educational background is more important to hold the position in the organization. But their educational background does not always fit their current position.

The majority of the staff has the Chinese nationality and is familiar with the Chinese culture. As a foreign company it is hard to hire well educated and qualified employees. The Chinese labor market is very fragmented. Due to the movement of the labor market, it is hard to develop a good HRM policy to keep the good employees within the organization.

3.2.2 Contextual dimensions

Size

In the field of organizational theories, the size of the organization has been described as an important variable that influences structural design. Should an organization like Maars China become more bureaucratic as it grows larger? In what size organizations are bureaucratic characteristics the most appropriate? One thing is clear to us, large organizations are different from small organizations along with several dimensions of bureaucratic structures, including formalization, centralization, and complexity.

Before we discuss the relation between the size and structural characteristics, we will try to define the size of Maars China. Maars China can be defined as a small to medium organization including basic positions and departments, necessary for the daily operation. The organizational life cycle theory provides us with a clear picture of the stage Maars China is in. Currently, Maars China is in the starting phase of formalization. This stage involves the installation and use of rules, procedures, and control systems. The top management becomes concerned with issues such as strategy and planning, and leaves the responsibility of the every day operation to the middle management. Bureaucratic characteristics emerge. The organization adds staff support groups, formalizes procedures, and establishes a clear hierarchy and division of labor. Innovations may be achieved by establishing a separate research and development department. This picture is partly comparable with the current situation of Maars China. Strategical and operational decisions are both made by the top management of Maars China. Bureaucracy and centralization is high. The organization of Maars China is becoming more and more complex as more employees and departments are added.

Formalization

Compared to Maars Holding which can be defined as a large organization, the formalization of Maars China is low. This evidence supports the conclusion that large organizations are more formalized because they rely more on rules, procedures, and paperwork to achieve standardization and control over their large number of employees and departments.

Decentralization

In a small to medium organization like Maars China, many decisions are taken by the top management. They have an overview of the organization and due to the size of the organization, the decision making process is not overly complex or bureaucratic. We observed strong centralized decision making in Maars China. When Maars China grows

larger and has more people and departments, not all decisions can be left to the top management. Our observation and analysis is confirmed by various research studies on organizational size; they indicate that larger organizations permit a greater decentralization. (Jerald Hage, 1967).

Complexity

The explanation for the relationship between size and complexity is straightforward. First, the need for additional specialties occurs more often in Maars Holding than in Maars China. Second, as departments within the organization grow in size, pressure to subdivide arises. That is also why Maars Holding has three divisions: Project, Manufacturing and Trade. But Maars China has only two divisions: Project and Manufacturing. Finally, vertical complexity traditionally has been needed to maintain control over a large number of people. As this number with Maars China increases, additional levels of hierarchy are needed. The organizational structure of Maars Holding has more vertical layers than that of Maars China.

Organizational technology

Production technology

With an empirical study of Joan Woodward, we will try to define the technical complexity of the production process within Maars China. According to Woodward's study the technical complexity of the production process within Maars China can be classified a category 5 and close to Group 2 (large-batch and mass production). Woodward shows that the number of management levels and the manager/total personnel ratio increases as technical complexity increases from unit production to a continuous process. The span of control, formalized procedures and centralization are high for mass production technology but low for other technologies because the work is standardized. The relation between production technology and structural characteristics can be partly confirmed with the case of Maars China. The technological complexity of the production process within Maars China is moderate and categorizes as mass production. The production process is partly automated. The product of Maars China is standardized and not custom made. The products are made in big masses. The technology is largely standardized to fit the product. But the organizational structure's characteristics do not fit the technological complexity well. We observe low work skills, centralized decision making and high control which are in accordance with the mass production model. But the low level of written communication, high level of verbal communication and the low or moderate formalized procedures do not fit the structural characteristics of mass production.

Departmental technology

In this section we will analyze the nature of the departmental technology and its relationship with a departmental structure. Each department within Maars China has a production process that is aided by a distinct technology. Once the nature of Maars China's departments' technology has been identified, the appropriate structure can be determined. The key elements between technology and departmental characteristics are: organic versus mechanic, formalization, centralization, staff qualifications, span of control and communication and coordination. In the picture below, we put all the departments of Maars China into the circle. The departmental technology of each department is of significant consequence for the departmental structure of each department.

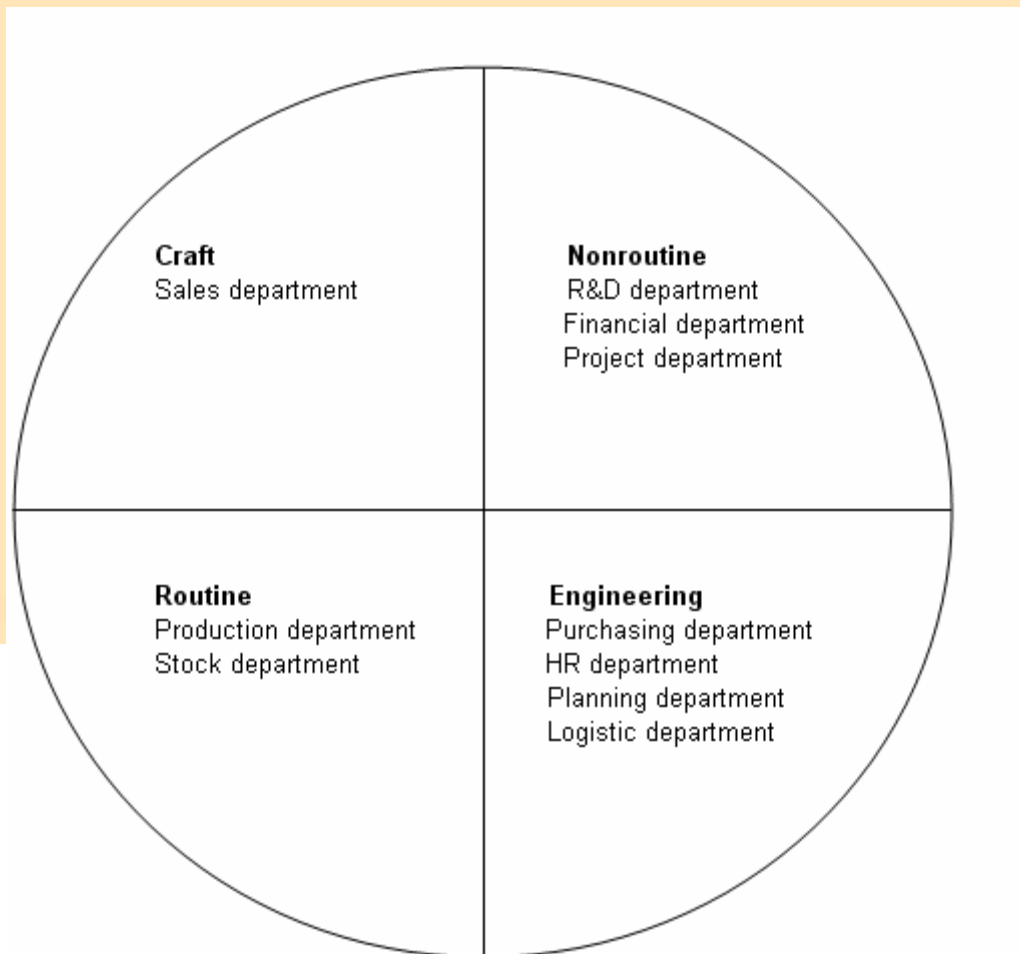


Figure 9 the current relationship between departmental technology and departmental structure

In the illustration above (9) we have arranged the departments according to the current departmental technology and structure. We observed that some departmental activities do not fit the departmental technology and structure. For example, the activities of the financial department can be defined as complex because there is substantial variety in the performed tasks, but these various activities are handled on the basis of established formulas (accounting principles), procedures (company procedures) and techniques. According to this definition the departmental technology of a financial department can be classified in the category Engineering. Currently, the financial department is classified in the category Nonroutine.

Environment

In a broad sense, the environment involves everything outside the organization. We only analyzed the aspects of the environment to which the organization is sensitive and has to respond to to survive. In this analysis the following environmental factors will be analyzed: industry, raw materials, human resources, financial resources, market, technology, economic resources, government and sociocultural issues.

Industry

The Chinese partitioning systems market is very fragmented. We can divide the market into a low, a medium and a high end segment, each with its own characteristics. Maars China is only presented in the high end segment, with a few competitors like Clestra, Triplan, Jeb, and Lindner. This segment is characterized by a high quality and innovative product and high (after sales) service. The main target group is (foreign) multinationals, the market is relatively small, and the price is generally less important. The competition is focused on

quality, product and service. The turnover of partitioning systems in the high end segment is not clear because the market is very fragmented and there is no data available.

Raw materials

Maars China depends on raw materials like steel, aluminum, glass and wood to produce partitioning products. The access to raw materials is unlimited for Maars China. In China there are many suppliers of raw materials. But reliable suppliers are hard to find. According to our buyer and the production manager the quality of raw materials is not consistent. This is not only a problem for Maars China but also for the competitors of Maars China. Some foreign competitors have chosen to import their products. Maars China is very dependant on suppliers of raw materials. Therefore Maars China often buys from two or more suppliers of the same materials.

Human resources

Besides raw materials, Maars China is dependant on human resources to reach the targets and execute the strategy. The average Chinese level of education is low compared to the level in the western countries, but this level is increasing. The labor market in China is very flexible. Salary is the biggest drive for employees to accept a particular job. There is a great shortage of employees with a high education. Maars China also has to deal with this. Currently, there are still some vacancies within the organization. To be less dependant on the labor market in general, Maars China established its own training for installers, employees on the work floor and sales people. In-house training is also necessary because the technology and know-how is company specific.

Financial resources

According to our financial supervisor, access to financial resources via banks, stock markets and other organizations is for Maars China quit difficult. The financial market in China is still in infancy compared to those in western countries. A couple of times when Maars China faced cash flow problems, Maars Holding has been and still is the only resource to solve this problem by transferring capital from Maars Holding to Maars China.

Market

According to the previous GM the Chinese market for high end partitioning systems is still in infancy. This is one of the reasons why there are only few suppliers of high end partitioning systems. The potential customers of Maars China products can be divided into two main groups: end users (owners and/or renters of the building) and construction companies. In the high end segment of the market the end users are mainly (foreign) multinationals. They are often familiar with the partitioning systems of Maars China and appreciate the added value of Maars China products. Competition is moderate but it is increasing, because of some new competitors in the market (foreign and local companies).

Technology

The technology factor plays an important role within the partitioning systems industry, especially for the high end segment. In the past, partitioning systems were made from steel and plasterboard and variation was limited. Current technology and innovation enables Maars China to apply different materials such as glass, wood, textile and other materials in partitioning systems. Variation is now almost unlimited. For Maars China products the used technology is company specific. Products as well as technology are patented. Another issue we observed within Maars Holding, and in the future probably also in Maars China, is technology sharing. This means developing partitioning systems for new markets with the current office partition systems technology, like partitioning system for hotels and hospitals.

Economic conditions

According to the marketing plan of the previous GM there will be strong economic growth in China up to 2010. Direct foreign investment is still growing and focuses more and more on the service industry such as banks, insurance companies, consultants and IT companies. But the financial crisis has a big impact on the world economy including China. So the economic conditions are very unpredictable and unstable. The Chinese government has put a lot of money in the economy intending to stimulate it, but this stimulation will only have effect on the middle-long term.

Government

Via law and institutions the Chinese government has a big influence on the Chinese environment and indirectly on Maars China. In China there is only one political party. All the decisions are made by this party. Thanks to the one political party, the political environment is stable. On the other hand, the government is very complex and bureaucratic. They distinguish between a Chinese company and a foreign company. There are big differences between local governments. For example, the same law can be differently interpreted from the local governments in both Shanghai and Beijing.

Sociocultural

There is a big gap between the Chinese and Western cultures. For foreign companies the Chinese culture is not easy to understand. You cannot learn the culture, you have to experience it. Even in China, there is a growing concern for environmental protection. The government has introduced new laws to protect the environment. For example, the measures introduced during the Olympic Games are implemented permanently to protect the environment. For Maars China this means that the pollution of the environment caused by production has to be minimized.

The external environment of Maars China involves a large number of elements which are complex and not at all similar. The majority of the elements change slowly. Excluding the influences of the financial crisis, the external environment of Maars China is complex but stable. Theoretically, this can be defined as a Low-Moderate Uncertainty environment.

The current organizational structure does not fit the Low-Moderate Uncertainty environment well. The organization facing this type of environment has a high formalization, a mechanic structure, some planning, a high centralization and a high specialization.

We observed in Maars China a lack of high formalization and a lack of planning on how to deal with the environment, and a lack of procedures. But on the other hand, the high centralization, a high level in hierarchy, and high specialization of Maars China's organization fits the Low-Moderate Uncertainty environment well.

Organizational goals and strategy

During our stay with Maars China, we had several interviews with the production manager about the desired direction of the organization and how Maars China can achieve this. After the appointment of the new general manager (GM), we also had interviews with him about the goal of the organization. We could already notice huge differences between the two key players in the organization. The production managers have a consolidation view, product penetration in the existing market in China and keeping the focus on blue chips. The general manager has the opposite view, his intention is to expand in Asia, market penetration of new markets and diminish the focus on blue chips and increase the focus on red chips. Due to the discrepant views of the key players, we also analyzed what the central view of Maars Holding is for Maars China. Maars Holding works with a budget system; within this system they predict what the turnover and costs will be for Maars China. How and with what resources Maars China should achieve this, is unclear. The mission sounds like a good slogan but the employees do not know what they should sell, whom they should sell it to and what the goal of the organization is. Maars China itself does not

have its own formulated mission, vision, objective, and strategy. Because of this, Maars China continuously changes direction. This illustrates a ship with two captains both holding on to their own course and neither of the courses is checked by the Holding. This creates confusion among the employees of Maars China; it seems that Maars China is two companies, one is the factory, managed by the production manager and the other is the sales company, managed by the general manager. The sales managers of the sales office have their doubt when they sell a product if it can be made or will be made by the factory. The communication with Maars China is very poor at the moment. Nobody in the company knows the direction of Maars China, the motives, and the goals Maars China wants to aim at.

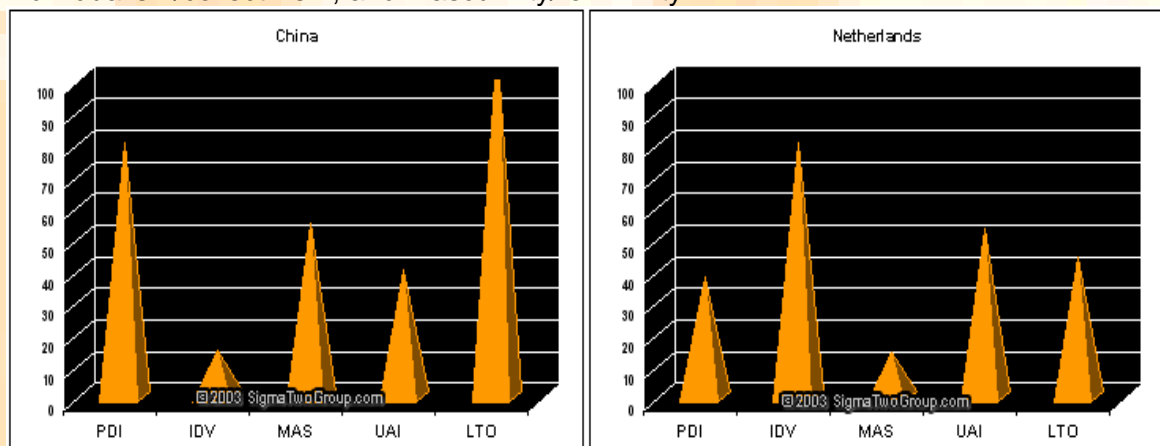
So the missing link here is the view of the top management's long-term direction, which will help managers to avoid unstructured decision making, like trying to sell partitioning to markets for which it is not indented. The organizational goal will motivate employees to do their very best and helps to keep direction-related actions of lower-level managers on a common path for better collaboration. This must clarify the picture of Maars China being one company and that they are co-workers, not competitors.

Organization's culture

The organizational culture of Maars China reflects the culture of Maas Holding. Maars China tried to create an organizational culture where everybody can say in a democratic way what they think. The given order/task to employees is almost every time individual. Chinese employees are used to work in an organization where there is a heightened sense of authority, a collective job to do and a lot of support from supervisors. The organizational culture of The Netherlands is very different compared to that of China. The poor knowledge of the Chinese culture with Maars China and Maars Holding caused problems managing the organization.

Interpreting Culture

One of the most important studies attempting to establish the impact of cultural differences in management was conducted by Geert Hofstede. Hofstede identified four 'value' dimensions in which countries differed: power distance, uncertainty avoidance, individualism/collectivism, and masculinity/femininity.³



³ **Power distance** indicates the extent to which a society accepts the unequal distribution of power in institutions and organizations.

Uncertainty avoidance refers to a society's discomfort with uncertainty. Preferring predictability and stability.

Individualism/Collectivism reflects the extent to which people prefer to take care of themselves and their immediate families, remaining emotionally independent from groups, organizations, and other collectivities.

Masculinity/Femininity dimension reveals the bias toward either /'masculine' values of assertiveness, competitiveness, and materialism, or towards 'feminine' values of nurturing, and the quality of life and relationships. Hofstede, G (1980) Cultures Consequences, Beverly Hills, CA: Sage; Hofstede, G. (1991) Cultures and Organization.

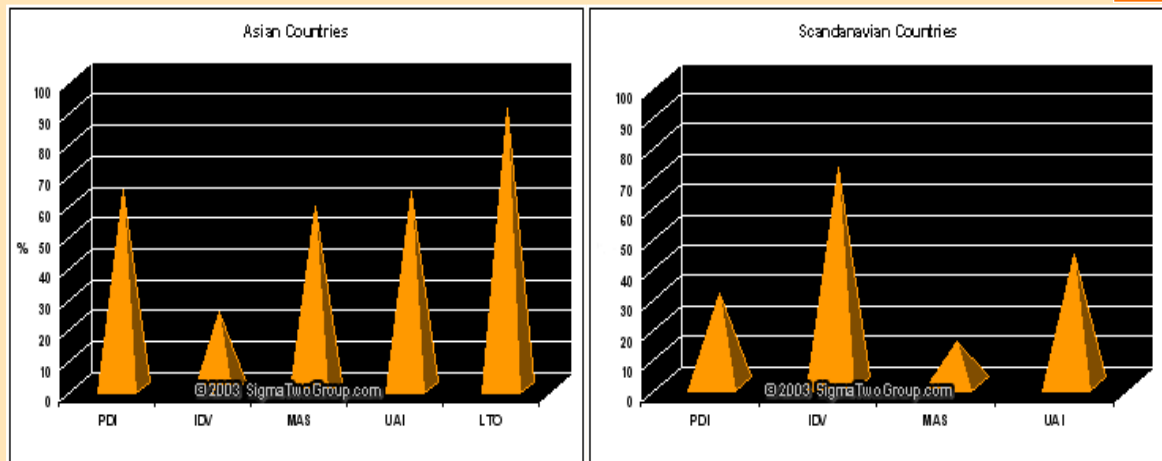


Figure 10: Geert Hofstede™ Cultural Dimensions

Geert Hofstede's analysis⁴ for China has Long-term Orientation (LTO) the highest-ranking factor (118), which is true for all Asian cultures. This Dimension indicates a society's time perspective and an attitude of persevering; that is, overcoming obstacles with time if not with will and strength.

The Chinese rank lower than any other Asian country in the Individualism (IDV) ranking, at 20 compared to an average of 24. This may be attributed, in part, to the high level of emphasis on a collectivist society by the communist rules, as compared to one of individualism.

The low individualism ranking manifests in a close and committed member 'group', be that a family, extended family, or extended relationships. Loyalty in a collectivist culture is paramount. The society fosters strong relationships where everyone takes responsibility for fellow members of their group.

Notable is China's significantly higher Power Distance ranking of 80 compared to the other Far East Asian countries' average of 60, and the world average of 55. This is indicative of a high level of inequality of power and wealth within the society. This condition is not necessarily forced upon the population, but rather accepted by the society as their cultural heritage.

Hofstede argued that organizations in countries with high power distance like China would tend to have more levels of hierarchy (vertical differentiation), a higher proportion of supervisory personnel (narrow span of control), and more centralized decision-making. Status and power serve as motivators, and leaders would be revered or obeyed as authorities.

In societies where power distance is high but uncertainty avoidance is low, organizations like Maars China resemble families or tribes. Here, 'the boss is the boss', and the organization may be described as paternalistic. Subordinates do not have clearly defined task roles and responsibilities in Maars China or other enterprises (formalization), but social roles instead. The Chinese business is often characterized by centralized power and personalized relationships. To create such a relationship takes a lot of time, especially when one of the parties is foreign.

A study of Chinese entrepreneurs found the Confucian tradition of patriarchal authority to be remarkably persistent. Being part of the family is seen as a way of achieving security. Social roles are clearly spelled out in line with Confucian precepts, which designate the

⁴ http://www.geert-hofstede.com/hofstede_netherlands.shtml

responsibilities for the roles of father-son, brother and so on. Control as exerted through authority, is not questioned. In 70 percent of the entrepreneurial firms studied, even large ones, the structure of the Chinese organization was found to resemble a hub with spokes around a powerful founder, or a managers' structure with only two layers⁵.

3.2.3 Why should the organization change

There are two reasons why an organization should change. An organization can face internal pressure to change, or environmental pressure. For Maars China the main reason for change can be found internally.

Internal pressure

For an organization there can be five potential internal forces for change: pressure related to organizational growth, pressure related to the need for integration and collaboration, pressure around establishing or re-establishing organizational identities, new broom pressure associated with the appointment of a new manager, and a variety of power and political pressure.

Growth pressure

The Chinese partitioning systems market is still in infancy. There is a lot of potential for growth. The market share is not concentrated. The characteristics of the Chinese partitioning market offer Maars China a lot of potential to become a strong player in the market. There is internal pressure (Maars Holding) for growth. To reach these goals, Maars China developed or re-developed the organizational structure to fit the organizational growth. The turnover of this year is doubled compared to the previous year. The budgeted growth for next year's turnover is 100%. Therefore adaptation of the organization is necessary. The organization does not have the required positions and departments to fulfill this task. When the organization becomes bigger, including more departments and positions, increasing formalization and formal procedures is necessary.

Integration and collaboration pressure

Maars China is the only subsidiary with its own production facility. The purchasing of raw materials is an important issue. To lower the costs, Maars Holding and Maars China decided to buy the raw materials together. This increases their purchasing power and lowers the costs. At this moment, the cooperation between Maars Holding and Maars China is not strong. The current hierarchic organizational structure does not support or encourage direct communication. There is rarely communication at all between Maars China and Maars Holding on a middle management level. Communication mostly involves only the top management. Also the knowledge transfer from Maars Holding to Maars China and vice versa is minimal. On the long term, Maars Holding and Maars China strive for more collaboration (financial, HR, Marketing, Sales, Project etcetera).

Identity pressure

The production costs in Maars China are much lower compared to those of Maars Holding. Currently, Maars Holding is outsourcing some products to other companies in The Netherlands. To lower the costs, Maars Holding is planning to outsource their products to Maars China. Both organizations will benefit consequently. Maars Holding can lower the production costs by cheaper production, Maars China can lower their production cost by a growth factor and lower fixed costs per product. This means that the identity of Maars China will change. Besides the production for the internal market, Maars China will also be insourcing products from Maars Holding. For R&D it is also much cheaper and easier to test a new product in Maars China.

⁵ Kao, J. (1993) 'The worldwide web of Chinese business', Harvard Business Review, March-April, pp 24-35

New broom pressure

The new GM arrived in Maars China in 2008. He has a totally different view on organization and sales than the previous GM. The previous GM focused the sales activities on foreign companies in Shanghai. The new GM focuses the sales activities on domestic companies in Shanghai and to set up sales offices in other big cities. The previous GM tried to keep the organization compact and had a total control. He believed that the market for Maars partitioning systems was not so big, only foreign companies were the targeted group. The new GM has a totally different view on the market for Maars partitioning systems. He thinks that in the near future the domestic companies will more and more use Maars partitioning systems and the market share of foreign companies will decline. Additionally, he tries to develop a dealership for Maars partitioning systems. This is an easy way to enlarge the market share and reach the sales target. This means the organizational structure has adapted to this change.

Leadership style

Maars China is a young organization. The management of Maars China is the captain of the ship. They decide in which direction the organization goes and on how to reach their destination. Their leadership style will directly and indirectly influence the organization's performance. The leadership style has adapted to internal and external changes.

The current leadership style of the top managers is a combination of a commanding leadership style and a visionary leadership style. Commanding leadership: "Do it because I Say so". Threatening. Tight control. Monitoring studiously. Creating dissonance. Visionary Leadership: Inspires. Believe in your own vision. Empathic. Explains how and why people's efforts contribute to the 'dream'.

Due to cultural differences, the communication between the top managers and the employees is sometimes difficult. The employees of Maars China, especially on the work floor, have no independence and need to be told what to do. The influence of the communism is still present. They only perform when they receive an order from their boss. When they face problems while doing their job, they try to ignore the problems and do not tell the boss. Therefore a commanding leadership style is necessary. For the middle managers it is important to know what Maars China stands for and how they can contribute to the organizations' goals. Therefore the two top managers have to teach and support the middle managers and let them know what Maars China stands for. For example, the production supervisor has to know that the quality of Maars China products must meet high standards. This is one of the philosophies and gives a competitive advantage to Maars China. The project manager and sales manager also have to know that Maars China is a reliable company with a good reputation. To improve the skills and knowledge of middle managers, Maars China is preparing training and a visit to Maars Holding in The Netherlands. The purpose of this training is to let them experience the Maars Holding philosophy and improve their skills and knowledge.

External pressure

External pressure is a focus on explaining organizational change. This often occurs when an organization's resource base decreases or increases as a result of a demand for production and sales change, a decrease or increase of the market share, and investment decisions. There are a total of five types of environmental pressure for change the organization faces: international pressure, bench marking pressure, market pressure, competition pressure, reputation and credibility pressure.

International pressure

China tries to attract more foreign investments by opening their economy to foreign companies. The trend moves towards a harmonization with WTO standards. But in the near future, the differences will still exist. We can not expect that in the near future doing business in China will be the same as in Europe for example.

Maars Holding is a global company with a subsidiary in China. As a western company, Maars China acts in a strange environment. The cultural difference between China and Western is big.

The Chinese (labor) law is very complex. It distinguishes between a domestic and a foreign company. It is not easy and sometimes impossible to copy the organizational system of Maars Holding to Maars China. Also in other fields, like accounting, HRM and the assessment system, China is not the same as a Western country.

Bench marking pressure

As an organization, it tries to improve itself by comparing itself to other companies. At this moment, the bench mark of Maars China is Maars Holding. On the long term, Maars China strives to have the same structure as Maars Holding, and in the organizational field with the same adaptations to the Chinese culture and environment. The trend is also moving toward harmonization between Maars Holding and Maars China.

Market pressure

The Chinese market for partitioning systems is becoming more and more mature. The rapid increasing of the demand for reliable and innovative partitioning systems has driven Maars China to become a more professional organization. Maars China has opened a new sales office in another city in China, increasing the staff number, increasing the number of departments, introducing a new product, etcetera. The increasing demand for the Maars' product has driven Maars China to redesign the organization.

In the near future, Maars China will enter the partitioning systems market for hotels and hospitals. This production diversification needs some organizational adaptation. For example, the creation of new BU for the hotel and hospital market or to split the sales and project department into different market segments.

Competition pressure

The strong economic growth and the increasing demand for partitioning systems will attract more domestic and foreign companies to enter the Chinese partitioning market. At this moment, the main competitors of Maars China are foreign office partitioning companies and domestic office partitioning companies in the high end segment. Maars China prepares to enter the market for partitioning systems for hotels and hospitals; in the future the number of competitors will increase. When competition increases and the advantage of early entrance disappears, Maars China must be able to distinguish itself from the competitors. Maars China can compete on product, services and brand levels. For the product the development of a R&D department and quality control is important. For the high end segment the price is less important. But it does not mean that Maars China does not have to focus on how to become more efficient and how to lower the production costs. The organizational structure of Maars China must be able to adapt this product diversification and be competitive in the future, when the competition increases.

Reputation and credibility pressure

As a foreign company, Maars China strives to be a reliable partner in the construction world. Additionally, Maars China wants to become a professional organization and deliver an excellent product and service to the customer. To establish this company image, the current organizational structure is just not good enough. For example, the low formalization

and the lack of clear procedures cause confusion on how to deal with the internal and external problems. Accountability is thin, because of the lack of job descriptions.

This analysis provides us with the following information about the current situation:

- The current organizational structure has the following characteristics: low formalization; low to medium specialization; high product and technology standardization, in other fields, like finances, the standardization is low; the hierarchy and authority strong, centralization high, low to medium professionalism and moderate complexity. As a result, we observe thin accountability, a lack of standardized procedures and a low level of internal communication.
- According to the organizational life cycle Maars China is entering the formalization stage. The size of the organization is small to medium. This involves low formalization, high centralization and a moderate complexity of the organizational structure.
- The production technology can be classified as suited for mass production. But the current organizational structure does not fit the production technology. The level of written communication is low, the verbal communication is high and the formalization is also low. The departmental technology of some departments is not in accordance with the nature of the activities.
- The environment of Maars China is complex but stable. This can be identified as low moderate uncertainty environment. This analysis provides us with the following information about the relation between the environment and the current organizational structure of Maars China. The current organizational structure does not fit the environment well. Because the formalization is low, there is a lack of planning on how to deal with the environment and a lack of procedures.
- The organization's goals and strategy are not well defined. There is a lack of knowledge, information and support on how to develop proper and clear (long-term) goals and a strategy. As a result, decisions are made on impulse and do not support strategic decisions.
- The organizational culture of Maars China can be defined as a collective. The organizational structure is focused on independence and a pro-active attitude. This does not match the organizational culture.
- The biggest drives behind the organizational change are growth pressure, collaboration pressure, new broom pressure, market pressure and competition pressure. This combined pressure proposes more formalization, clear communication, initiative, decentralization and a less hierarchic organizational structure.

3.3 *Desired situation*

Chapter 3.2 provides us with an analysis of the current situation of the organization. In this chapter we will analyze where the organization wants to go to.

3.3.1 Contextual dimensions

Size

During our stay in China we observed that the organization is growing. They hired more employees, established more departments and job positions. But the organizational structure is not adapted to this change. When Maars China becomes more complex and bigger, the organizational structure has to adapt to the new situation. Theoretically, when an organization becomes bigger and more complex, formalization and standardized procedures will increase. The decision making will be delegated to lower levels (decentralization).

Organizational technology

Production technology

The production technology of Maars China is defined as suited for mass production, with a high standard for both product and technology. This needs some organizational adaptation. Theoretically, the following organizational characteristic is most suited for mass production.

<i>Structural Characteristic</i>	<i>Technology</i>		
	Unit Production	Mass Production	Continuous Process
Number of management levels	3	4	6
Control	Medium	high	Low
Direct/indirect labor ratio	9:1	4:1	1:1
Manager/total personnel ratio	Low	Medium	High
Workers' skill levels	High	Low	High
Formalized procedures	Low	High	Low
Centralization	Low	High	Low
Level of verbal communication	High	Low	High
Level of written communication	Low	High	Low
Overall structure	Organic	Mechanic	Organic

Table: 1 overview of structural characteristics vs. Technology

Departmental technology

In the current situation, the activities of some departments do not fit the departmental technology and structure. In illustration 11 we arranged each department according to their activities, departmental technology and structure in the desired situation.

Environment

The organizational structure of Maars China has to adapt to the low-moderate uncertainty environment, with which they have to deal. Theoretically, the desired organizational structure has the following characteristics: mechanic structure, formal procedures, centralized, many departments, hierarchic, some planning and few integrating roles.

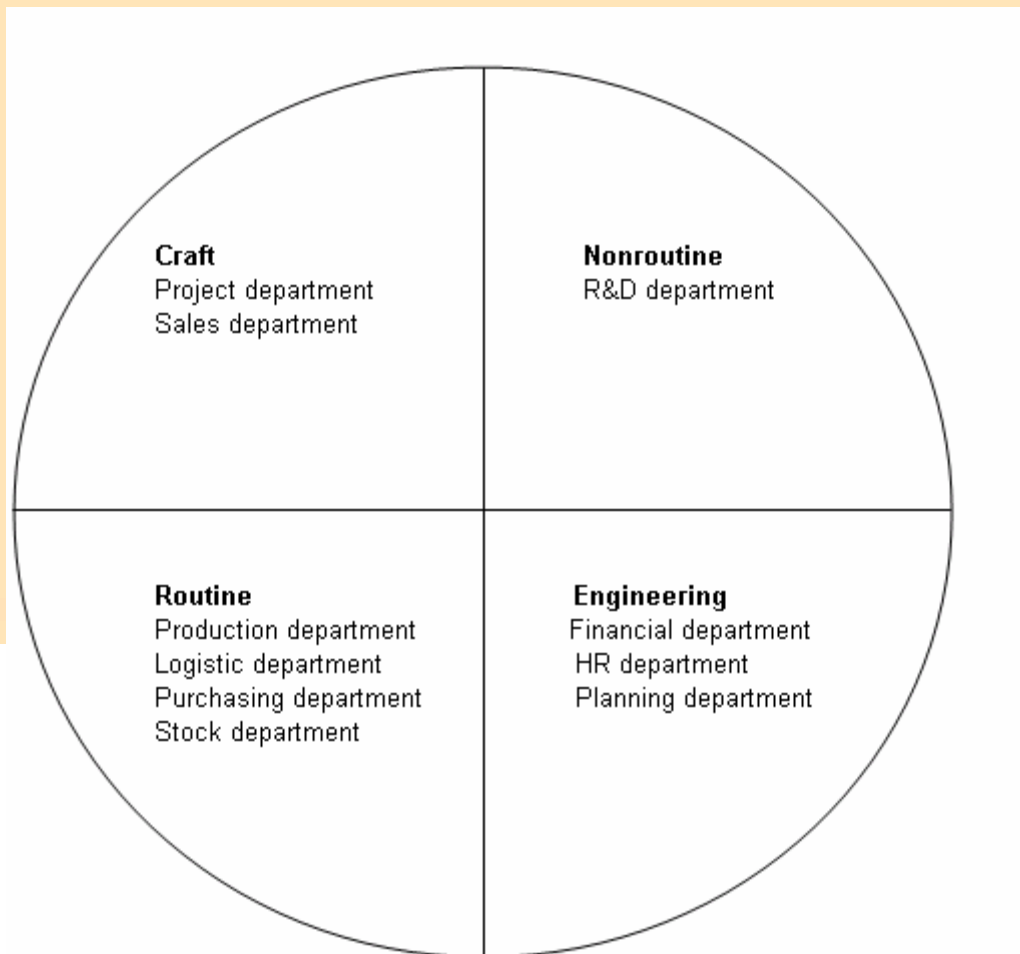


Figure 11: departmental technology of Maars China

Organization goals and strategy

Theoretically, Maars China should clarify questions like:

- Which markets does Maars China has to cover
- Name the markets where Maars China wants to be
- Who are their customers
- Which technology does Maars China has to apply
- These factors are significant, because after answering these questions, Maars China should at least pursue this direction for five years. This will provide a clear message for their employees regarding to which markets they should focus at, which customers to approach, which products to sell and where the future of the company lies.

Organizational culture

A clear understanding of the culture is essential when Maars China decides to redesign their organization. Theoretically, the next cultural items should encompass Maars China's organizational design:

- Visible boss.
- Paternalistic: an organization that resembles a family or tribe.
- An organization that is characterized by centralization power and personalized relationships.
- More levels of hierarchy (vertical differentiation).
- A higher proportion of supervisory personnel (narrow span of control)
- Collectivity in stead of individual assignments

The pressure for organizational change are drives behind an organizational structure with high formalization and procedures, clear and direct communication, decentralization and delegation of the decision making to lower levels, less hierarchic organizational structure and independent employees.

3.3.2 Structure dimensions

Formalization

According to the analysis of contextual dimensions, the formalization (job description, formal procedures) should increase. The highly standardized product and technology requires a high level of formalization. The increasing size and complexity of the organization needs more formalization and standardization.

Specialization

The specialization of top managers should be low because their job is hard to define exactly. The specialization of middle managers and employees on the work floor should be medium. Employees on the work floor should have a flexible job. They should assist other employees on the work floor. In general, the knowledge and skills on the work floor is transferable. The tasks and specialization of middle managers is based on their position. This means that the tasks of a financial manager for example involve only tasks related to financial issues. The job of a middle manager is quite narrowly defined.

Standardization

The product and technology is highly standardized within Maars China. High standardization will support formalization and control. Next to the product and technology standardization Maars China strive to standardize procedures, financial report, HR policies and reward policies. When an organization becomes bigger and more complex, standardization will increase to control the chaos. This means the standardization will be high in the desired situation.

Hierarchy and authority

Theoretically, hierarchy is related to the size of the company. When an organization is big and complex, more hierarchical layers will arise. When the organization is focused on internal efficiency and control, authority and hierarchy will increase. Maars China strives for more efficiency and effective control within the organization. In the desired situation a high hierarchy and authority is suitable for Maars China.

Complexity

The horizontal, vertical and spatial complexity is increasing because Maars China has more positions and employees. Maars China has also opened a new office in Beijing. This will increase the spatial complexity of the organization. Compared to Maars Holding, the complexity of Maars China is still lower. The complexity of Maars China can be defined as medium in the desired situation.

Centralization

Theoretically, the big difference between a big and a small organization is whether the organization is centralized. A small organization is generally more centralized. All the decisions are made by few persons. When the organization grows, it is almost impossible to refer all decisions to the top management. This means that the top managers will have to make choices about which decisions they make and which will be delegated. Maars China is now in a situation to make choices on which decisions will be delegated to the lower levels. According to the top managers of Maars China, they do not have enough time to focus on the strategic issues, because they are too busy with the operational decisions. In the desired situation, operational decisions will be delegated. Only the strategic decisions will be highly centralized.

Communication

The communication in the desired situation will be both vertical and horizontal. This means that direct communication between departments will increase. And communication will not only be top down, but also bottom up. This communication line will increase collaboration between the different departments and causes internal innovation.

Control

According to the top management, control is important in the new organizational structure. The current control mechanism is too bureaucratic and not effective. In the desired situation the control will still be high, but effectivity will increase.

3.4 *Suggestion for improvement*

3.4.1 Mission, vision and goals

The mission that Maars Holding defines for itself and the subsidiaries is: 'Create your Environment'. When we analyzed the mission of Maars Holding and Maars China, we noticed that most of the requirements are incomplete. Questions like what products Maars Holding/China is producing or the future possibilities are not clear in the current mission. This creates confusion among the employees while everybody must have a shared commitment to the goal of the organization. This will prevent deviation of the planned strategy.

Suggested missions for Maars China are:

- 1: Our goal is to be market leader on every market we serve, to the benefit of our customers and shareholders.
- 2: Our purpose is to create superior value for our customers, employees and shareholders through continuously reinventing the production, installation and sales of flexible and sustainable partitioning systems.
3. Maars China is determined to be the most innovative diversified partitioning company in the world. To achieve this position, Maars Holding will be one, global, customer-oriented enterprise committed to excellence and lowest costs in its chosen partitioning businesses, with significant resources devoted to building an array of new businesses with superior growth and profit potential.

The questions to formulate a well defined mission are discussed below:

- Why are we doing this? To be the most innovative diversified partitioning company in the world.
- Why does this work [our work] matter? Superior growth and profit potential.
- What's most important about this work? Becoming leader in every market Maars China serves.
- What will it do for us to fulfill our vision or strategic priorities? One global, customer-oriented enterprise committed to excellence and lowest costs in its chosen partitioning businesses.
- Why do our goals matter? To achieve the demanded position.
- What is our unique role? Most innovative diversified partitioning. How do we "make a difference"? Global and customer-oriented enterprise. For whom? How will we benefit? Shareholders. Who else benefits? The customers with the most innovative diversified partitioning systems.

As well as Maars Holding, Maars China does not have a formulated vision. For Maars China it is important to have a vision. By crafting a vision, Maars China can powerfully communicate their intentions and motivations to their organization to realize an attractive and inspiring common vision of the future.

Suggested visions for Maars China are:

- 1: Our mission is to work for the success of people we serve by providing our customers with the working environment, atmosphere, and style and with higher reliability in partitioning than any similar enterprise in the world.
- 2: To become the most successful and respected partitioning systems company in the world.

The questions to formulate a well defined vision are discussed below:

- What business are we in now? Partitioning systems.
- What business do we want to be in? Work for the success of people that Maars China serves.
- What will our customers want in future? Atmosphere, style and highly reliable partitioning systems.
- What are the expectations of our shareholders? Be the best in what Maars China is doing.
- Who will be our future competitors? Suppliers? Partners? Anybody who is interested in environment, atmosphere, style and a higher reliability.
- What should our competitive scope be? High end segmentation because of the style and higher reliability.
- How will technology impact our industry? The best because Maars China wants to be the best enterprise in the world.
- What environmental scenarios are possible? Success.

The mission we presented above gives a clear direction of the company for its employees, shareholders and customers. It makes it clear that Maars China is providing reliable and stylistic partitioning systems and wants to innovate continuously to meet the high requirements of the market.

Operative goals

Operative goals are formulated according to the requirements of the SMART method and communicated to all employees of Maars China. This will enable employees to understand how they can contribute to reach these goals. We have taken some of the goals that Maars Holding has given as a target for Maars China and made it SMART.

- Increase earnings by 15% annually
- Increase net profit margins by 2% to 6%
- Increase annual sales from ¥ 10 million to ¥ 80 million in 5 years.
- Up the Firm's market share from 18 to 22%
- Lower costs related to key competitors
- Recognition as innovative company

Strategies to reach that goal include:

- Motivating sales people to increase the average size of customer purchase.
- Recruiting more sales people to penetrate the market.
- Focus strategy. Maars China must make use of their low-cost advantage because all of the competitors are importing their products from Europe. Maars China is the only foreign partitioning firm with its own factory in China and therefore Maars China can have a higher margin than its competitors.

The organizational culture for Maars China must be formed of a combination of three dimensions, where they should anticipate: Clan, bureaucratic and adaptability culture.

The clan culture has a primary focus on the involvement of employees and for Maars China this should be:

- The top of management plays a decisive role in deciding the success of Maars China. Facing a greater competition brought about by globalization, the management of Maars China today will need to possess a stronger judgment, decision-making ability, adaptability and greater foresight. Ability to look ahead is crucial as one needs to be able to predict unforeseen circumstances in order to be ready at all times to react to any changes.
- The Chinese expect a boss to be a leader both inside and outside the organization. That means organizing social events for office personnel of Maars China. Favorite activities include dining (formal banquets, lunch or dinner at outstanding restaurants) bowling and karaoke. With this Maars China can fulfill the paternalistic duty.
- A style where managers of Maars China must treat their staff with an open heart, cultivate Maars China's values and visions constantly to foster togetherness within the organization and strengthen the organization.

The bureaucratic culture has an internal focus and consistent orientation and for Maars China this should be:

- Chinese people do not like to say no nor admit that they do not understand something. Unlike in the Western world where we are told since grade school that there are no dumb questions, the Chinese were not encouraged to express puzzlement. Misinterpretation of these cultural norms by a Western manager can undermine the effectiveness of a department.
- Every team of any department should have a foreman who is able to guide the requirements of the Chinese culture. The foreman is accountable to the department manager, who in his turn reports to the key managers. This creates a possibility for foreign managers who do not understand the Chinese culture to gain know-how of their staff.
- Assignment controls of the supervisors. Often when a manager of Maars China explains and assigns a task to an employee, this person always responds with: "No problem". Sounds reassuring, but that answer is a product of the cultural tendency to be polite and a reluctance to disappoint. A "No problem" usually means "I will try"; you will still need to do a lot of following-up. They also may not tell you if things start going wrong.

The adaptability culture of Maars China where the focus lies on the external environmental elements:

- The business culture's high regard for relationships applies to people outside as well as inside the company. In fact, the very viability of a business depends on relationships with vendors, distributors and, most important, the municipal, regional and central government who can cripple a company by a simple disapproval. Guanxi (gwan-zhee), or connections, can take the form of a night of karaoke with the local government department regulator in order to get a printer for processing invoices. Or it could mean hosting a banquet with a customs official to make sure that precious hardware shipments arrive at some point in the 21st century. It could mean bringing your CEO to China to shake hands with the minister of a key industry sector that represents lucrative potential business.
- Although it is vital for a Western manager to understand the necessity of external relationships and the role of guanxi in China, the actual act of relationship building is best left to the ethnic Chinese on staff. For one thing, they will more quickly understand the expectations of Chinese power brokers; for another, they have a

lifetime of cultural habits that will enable them to handle delicate situations with more aplomb than a Western manager ever could.

3.4.2 The gap between current and desired situation

In the table below we summarized the gaps between the current and the desired situation. The gaps in the table are arranged according the organizational characteristics. The contextual dimensions are also included in this table to present the whole picture of the current and the desired situation.

Organizational Characteristics	Current situation	Desired situation
Formalization	Low	High
Specialization	Low (blue collar and top managers), medium (department managers)	Low (top managers), Medium (blue collars and department managers)
Standardization	High (product and technology). Low (procedures, policies, communication)	High
Hierarchy and authority	High	High (clear)
Complexity	Low	Medium
Centralization	High	Medium (operational decisions delegated to the middle managers). High (strategic decisions are made by the top management)
Communication	Low	High (vertical and horizontal)
Control	High (ineffective)	High (effective)
Professionalism	Low (blue collar). Medium (white collar)	Low (blue collar). High (white collar)
Size	Small to medium	Medium
Technology	Production technology (routine and standardized) Departmental technology (No routine, ad hoc and not standardized)	Routine and standardized
Environment	Low-moderate uncertainty	Low-moderate uncertainty
Goals and strategy	Unclear	SMART formulated
Organizational culture	Western Style	Chinese Style

Table 2 overview of the current and the desired situation

3.4.3 Proposed organizational structure

The table above provides us with a clear picture of the direction in which the solutions and improvements can be found. According to the table the new organizational structure must have the following characteristics:

- Formalization: high

Maars China has to introduce more rules and procedures to increase the formalization. The more Maars China can rely on formalization to specify required behaviors, the less it needs to adjust the job results. They are also inexpensive to

implement and cost the organization little to maintain. It is important that all employees are taught the appropriate rule to follow in a certain situation.

- **Specialization: low to medium**
According to the top managers, job descriptions must be flexible, but clear for all employees.
- **Standardization: high**
To coordinate the activities and duties, Maars China can standardize the rules, procedures, policies, the product and the technology. This is necessary when Maars China becomes bigger and more complex. Standardization will decrease the overall costs (supplier costs, innovation costs, etc), increase the product quality, efficiency and control.
- **Hierarchy and authority: high (clear)**
In the hierarchy of Maars China, each lower position is under the supervision of a higher one. The clear hierarchy and authority is important for Maars China to coordinate the activities and people, divisions and duties. As a result, authority links and integrates the activities of managers and employees across hierarchical levels. Due to the culture, Chinese employees are very hierarchical orientated. The level of hierarchy varies with Maars Holding and Maars China. In general, the larger and more complex an organization is, the higher its hierarchy.
- **Complexity: medium**
As a result of a growing organization, the complexity is increasing (horizontal, vertical and spatial).
- **Centralization: medium to high**
To keep Maars China less bureaucratic, decentralization of operational decisions is necessary. This will encourage employees to become more proactive and independent. The strategic decisions will still be made by the top management.
- **Communication: high.**
To improve the interdepartmental collaboration, direct horizontal communication is necessary. The vertical communication must be a two way communication. This means top down and bottom up communication.
- **Control: high (effective)**
Our own observations, interviews and research shows that the current control system of Maars China is very extensive, but it is not effective. To improve the control system it is important to judge where control is necessary. The following question is important: does control add value? Implementing a computer system will increase the effectiveness and efficiency of the control system.
- **Professionalism: low (blue collars), high (white collars)**
- **Size: medium**
The organization is growing and can theoretically be defined as a medium organization.
- **Technology: routine and standardized**
- **Environment: low-moderate uncertainty**
- **Goals and strategy: formulated according to the SMART method and long-term oriented.**
- **Organizational culture: anticipated at clan, bureaucratic and adaptability culture.**

The different departments and duties of Maars China are created to perform tasks and help the organization to reach the goals. As the organization grows larger and becomes complex, more and more duties need to be performed. When the required activities and departments are defined, the next question for Maars China is how these activities and departments should integrate in the organizational hierarchy. The reporting relationship must be clear for all of Maars China. When this question has been answered, the last step is which departmental grouping option is the most suitable for Maars China. Options for

departmental grouping include functional grouping, divisional grouping, multifaceted grouping, horizontal grouping, and virtual network grouping.

Organization configuration

According to the theory and top management the departments of Maars China are divided into disciplines and divisions. There are two divisions, the sales and the manufacturing division. This structure is in accordance with the Maars Holding division structure. Besides this, we recognize support departments: finance, HR, marketing, IT and R&D. The core departments are: production (product engineering, production, purchasing), sales, project (design, installation, project management and materials calculation).

Reporting structure

The reporting structure of Maars China follows the hierarchy of the organization. Employees report to their supervisor or responsible manager. This reporting structure will be standardized and formalized to increase reliability and accountability.

Maars China's organization should be designed to provide both a vertical and a horizontal information flow as necessity to accomplish the organization's overall goals. If the organizational structure of Maars China does not fit the information requirements, people will either have too little information or spend too much time to get the information, thus reducing the effectiveness of the whole organization.

Organizational structure

Theoretically, an organizational structure can not be defined as a purely divisional, functional or multitasking model. There is always a combination of different organizational models. According to our research results and organizational theory, the combination of a functional and a divisionally structured model is most suitable for Maars China.

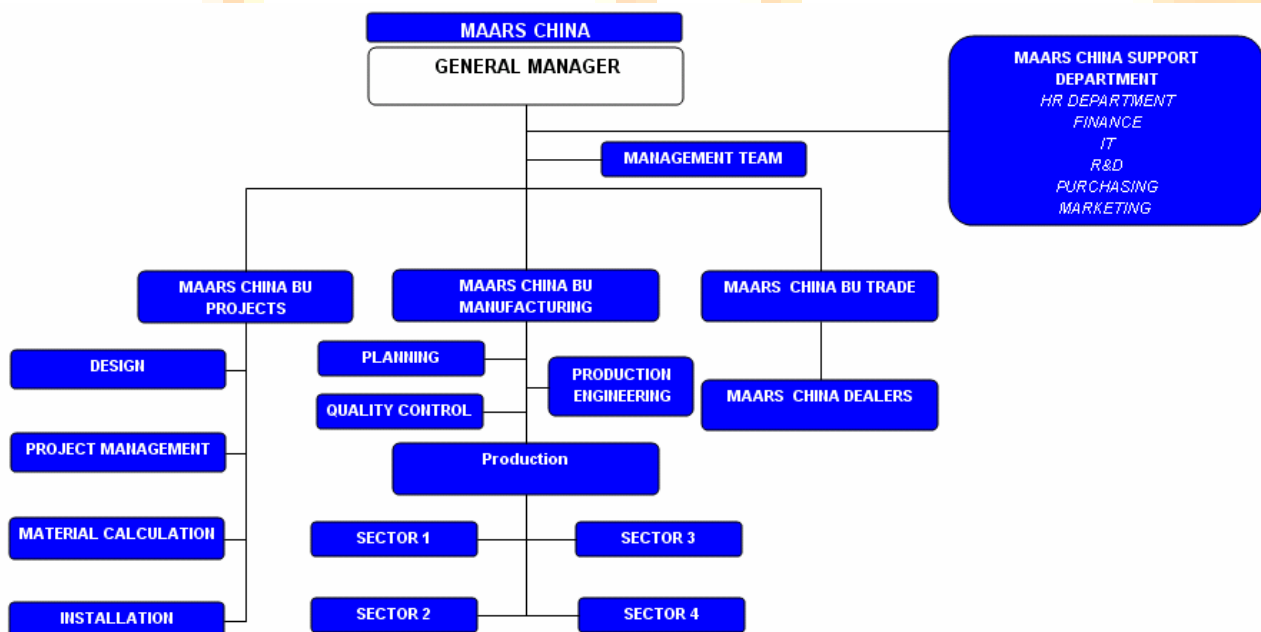


Figure 12: Proposed organizational structure for Maars China

3.4.4 The advantage and the disadvantage of the proposed organizational model

Advantage

- Every division is responsible for their own division and allows it to adapt to the differences in product, market and customers.
- The divisional structure allows for a fast response to the internal and external change by decentralizing decision making.
- The disciplinary model enables Maars China to accomplish goals. Setting goals for each discipline will encourage self development of employees and supports accountability.
- Due to the disciplinary model, the correct communication and reporting structure will be clear to all employees.

Disadvantage

- The disciplinary model based on the hierarchy can make the organization bureaucratic.
- The disciplinary model involves a restricted view of organizational goals.
- This combination model requires great effort in maintaining the power balance in the top management of Maars China.
- This combination model requires changes in culture, job design and information systems.

4. Accounting system

This chapter involves analyses of accounting system divided into four subchapters. In subchapter one, we start with theories and models. In this subchapter we discuss the purpose of accounting system in general; development of international and Chinese accounting system; the wishes of Maars Holding and Maars China about the accounting system. In the second subchapter we describe the current accounting system of Maars China. In the third subchapter we continue our research with analyse of desired situation of accounting system according to the theories and the wishes of Maars Holding and Maars China. In the final subchapter we present the gap between the current situation and the desired situation. The suggestion for improvement is discussed in this final subchapter.

4.1 Models and theories

4.1.1 Accounting in general

For most professionals accounting plays a major role in the management of any business. Companies require a system that summarizes past financial activity and communicates selected information to interested parties (shareholders, government, top managers and etc). By reporting output to the appropriate individuals, accounting gives its users the ability to make more informed (economic) decisions. This process is better understood if the definition of accounting can be clarified.

According to the theory and The American Accounting Association accounting can be defined as following: the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information.

- It suggests that accounting is about providing information to others. Accounting information is economic information. It relates to the financial or economic activities of business or organization.
- Accounting information needs to be identified and measured. This is done by way of a "set of accounts, based on a system of accounting known as double entry bookkeeping. The accounting system identifies and records "accounting transactions".
- The "measurement" of accounting information is not a straight-forward process. It involves making judgement about the value of assets owned by a business or, liabilities owed by a business. It is also about accurately measuring how much profit or loss has been made by a business in a particular period. The most common measurement of performance is profit. As we will see, the measurement of accounting information often requires objective judgement to come to a conclusion.
- The definition identifies the need for accounting information to be communicated. The way in which this communication is achieved may vary. There are several forms of accounting communication (e.g. annual report and accounts, management accounting reports) each of which serve a slightly different purpose. The communication need is about understanding who needs the accounting information, and what they need to know.

Accountability

Accounting is about accountability. Most organizations are externally accountable in some way for their actions and activities. They will produce reports on their activities that will reflect their objectives and the people to whom they are accountable.

The table below provides examples of different types of organizations and how accountability is linked to their differing organizational objectives:

Organization	Objectives	Accountable to (examples)
Private or public company (e.g. Shell, Tesco, Maars)	<ul style="list-style-type: none"> • Making profit • Creation of wealth 	<ul style="list-style-type: none"> • Shareholders • Other stakeholders (e.g. employees, customers, suppliers)
Charities (e.g. save the children)	<ul style="list-style-type: none"> • Achievement of charitable aims • Maximise spending on activities • Optimal allocation of spending budget 	<ul style="list-style-type: none"> • Charity commissioners • Donors • Government departments
Public services (e.g. transport and health) (e.g. National Health Service).	<ul style="list-style-type: none"> • Provision of public service (often required by law) • High quality and reliability of services 	<ul style="list-style-type: none"> • Government ministers • Consumers
Quasi-governmental agencies (e.g. Data Protection Registrar, Scottish Arts Council)	<ul style="list-style-type: none"> • Regulation or instigation of some public action • Coordination of public sector investments 	<ul style="list-style-type: none"> • Government ministers • Consumers

Table 3: example different types of organization and how accountability is linked.

Accounting is essentially an “information process” that serves several purposes:

- Providing a record of assets owned, amounts owed to others and monies invested;
- Providing reports showing the financial position of an organization and the profitability of its operations
- Helps management actually manage the organization
- Provides a way of measuring an organization’s effectiveness
- Helps stakeholders monitor an organizations activities and performance
- Enables potential investors or funders to evaluate an organization and make decisions.

There are many potential users of accounting information, including shareholders, lenders, customers, suppliers, government departments, employees and their organizations. For a business or organization to communicate its results and position to stakeholders, it needs a language that is understood by all in common. Hence, accounting has come to be known as the “language of business”.

There are two broad types of accounting information:

- Financial accounts: geared toward external users of accounting information. External users who are outside the organization like governmental agencies, lenders, investors, creditors, suppliers, customers, trade associations.
- Management accounts: aimed more at internal users of accounting information. Internal users who are inside the organizations like a board of directors, chief executive officer, entrepreneurs, chief financial officer, Vice presidents, managers and employees.

Financial accounting is focused on producing a limited set of specific prescribed financial statements in accordance with generally accepted accounting principles (GAAP). The central outputs from financial accounting are audited financial statements such as the balance sheet and income statement that provides a scorecard by which a company's overall past performance can be judged by outsiders.

Management accounting deals with information that is not made public and is used for internal decision making only. These reports are far more detailed than financial accounting and can cover performance and activities by departments, products, customers, and employees. It is an accounting system that helps management achieve the goals and objectives of the organization with an emphasis on the measurement, analysis, communication and the control of financial and non-financial information.

4.1.2 International accounting

International accounting is loose term, it has no agreed definition. Mueller (1965), states "International accounting is concerned with inter-relationships of accounting amongst countries". This would seem a sufficiently wide definition to embrace all the concepts referred to all formulated definitions of international accounting.

The first thing that has to be decided is what is the issue being discussed. To be sure that the terms are clear we want to start with a description of international uniformity, international standards and international harmonization:

- Uniformity – is a condition in which everything is regular, homogeneous or unvarying. It implies sameness, and in this context means that all accounting principles and practices are the same. Those who believe that uniformity is desirable, would as a first step, need to compare the different systems, then they would need to persuade others that some measure of agreement would be advantageous, they would then work towards harmonization, attempting over time to remove differences. They would be working towards the acceptance of some authorized model, a set of standards. When this had been achieved there would be uniformity.
- Standards – are an authorized model of a unit of measure. So attempts in accounting to standardize are attempts to introduce uniformity in accounting methods.
- Harmonization – is the attempt to bring together different systems. It is a process of blending and combining various practices into an orderly structure, which produces synergistic result. It first involves examining and comparing the different accounting systems in order to note points of agreement and disagreement, and then working towards bringing these different systems together.

Companies would benefit from harmonization for the following reasons:

- Consolidation of overseas subsidiaries would be easier if accounting practices were standardized.
- Many large companies want to raise money in more than one country and in international markets, and so need to produce accounts which can easily be understood by investors in many countries.
- It would be easier, and possibly greater accuracy could be obtained, in valuing and appraising overseas companies for merger purposes.
- Management control would be easier.

Arguments against Harmonization leading to International standards:

- There are cultural differences between countries, which mean that the objectives of the accounting system can differ from country to country.
- It is necessary to agree on the objectives at the national level before it is possible to move to international standards.

- The process is very complicated and expensive, and so not worth the effort.
- Nationalism stands in the way of change.
- If harmonization is achieved it will be by the acceptance of the lowest acceptable level of reporting.
- Needs of developing countries differ from those of the developed.

4.1.3 Chinese accounting

The financial accounting is heavily regulated, in part to permit comparative analysis of the financial reports issued by business. When we consider the wide variety of organization in our economy, it is evident that some form of harmonization or standardization is necessary. The foundation of financial reporting is a set of concepts, assumptions, standards, and practice known GAAP. These principles, which change over time, are guidelines to be used in measuring and reporting economic events to parties outside and inside the firms. GAAP is country specific, but most of them are based on the International Accounting Standards. The majority of researchers and scholars are presumed that accounting in a country is a product of country's environment. When we describe a country's environment we actually mean forces like the demographical, economical, political, ecological, social/cultural and technical spheres. Every force stipulates the characteristics of accounting and because of this the accounting systems differ considerably from country to country.

The first Chinese accounting theory was Yi (justices) and Li (profits). Some followers were seeking justices (Yi) and not pursuing profits (Li) and vice versa. As a result of such theory, accounting as well as accountants has long been disliked by the Chinese. The result of the mentioned theory has its impact on today's Chinese accounting theory and practice. The impact presents the following facts: most Chinese accountants at present are reluctant to use the word "profit" let alone that they discuss profits of an enterprise; in the Chinese accounting theory servicing masses, instead of maximizing profits or wealth, is usually considered as the most important objective of accountancy. Especially, during the revolution, enterprises were never created as profit centre.

In the development of accounting, the Chinese behaved feudal or dogmatically. At the Zhou dynasty (1100 -711 B.C.) and the Qin dynasty (221-207 B.C.), government accounting offices already had three-account accounting reporting system including Cao Liu Account (similar to today's accounting documents), Xi Liu Account (kind of detailed account) and Zong Qin Account (similar to today's general ledger account). Such a system was where advanced at that time. However, this three-account system has handed down for about two thousand years until the beginning of 20th century. During this long period of time, no one changed the system significantly, let alone that a new one was created. This attitude has long limited the imagination and creativity in the development of accounting of the accounting profession. As a result, the Chinese traditional accounting systems remained at the "single-entry stage for centuries. Even nowadays, some agricultural departments or private firms still use "single-entry" bookkeeping system.

China is a nation with a socialist structure. Under socialist economic theory accounting is "administrator" and representative of people's properties. The accounting objectives and functions, therefore, are different from the West due to different social-economic conditions and objectives. In setting accounting principles or norms, for example, Western countries are initially motivated by profit-maximizing prospects. In accordance with the state theory, the Chinese accounting theories always emphasize the necessity of providing the country's macro-administration with accounting data. According to "the Accountancy Law of the People's Republic of China" adopted on January 21 1985, the duties of accountants are upholding the State public finance system and the enterprise financial system, and protecting the socialist public assets". The national Auditing Office, which is directly under

the state Council, commands national auditing practice and develops auditing standards. The main objective of auditing is to prevent violations of the State public finance system and the enterprise financial system. The public finance department of the State Council regulates accounting system which is a model for all the enterprises. Accountants employed by the enterprise must exercise accounting supervision over business transactions in the enterprise of behalf of the State. However, when a conflict of interest between the enterprise and the State occurs, the enterprise would certainly be in a difficult position.

China has made a great deal of progress in reforming its accounting standards. Most notably is the one of 1992, the Ministry of Finance promulgated a completely new set of standards for domestic companies known as the Accounting Standards for Business Enterprises (ASBE). The ASBE were based on IAS and adapted to local conditions.

The financial statements of domestic companies reporting under the ASBE are audited by domestic audit firms, whose independence has been questioned. Staff in many of these firms were formerly internal accountants in the companies they now are required to audit, and in the Chinese context their relationships with and obligations to former colleagues who now are managers in their client companies are likely to persist.⁶

The 'Chinese accounting system' is governed by the amended Accounting Law 1985, which sets out accounting arrangements, responsibilities and procedures. The Accounting Law serves as the 'constitution' for the school of accounting regulations and defines the accounting and reporting practices for all public and private sector organizations. Furthermore, 'Uniform Accounting Systems' and 'Accounting Standards for Businesses' determine accounting and financial reporting practices. The Uniform Accounting Systems prescribe charts of account, reporting formats and detailed accounting instructions. The 'Accounting Standards for Businesses' are based directly on IASs. All organizations use double-entry bookkeeping and prepare balance sheets. The Audit Law 1994 governs auditing in the PRC and defines the basic principles for government auditing supervision, government audit institutions and auditors, the responsibilities and powers of audit institutions, audit procedures, and the legal liability of auditors. The PRC had no independent audit institutions from 1949 until December 1982, the National People's Congress adopted a resolution to establish an auditing system in the PRC. Because of this resolution, China National Audit Office (CNAO) was established in September 1983. The Auditor General who is a member of the State Council heads the CNAO. The CNAO audits public sector organizations (including many State-owned enterprises). It is also responsible for leading, developing, and supervising the auditing profession – it does not conduct financial attest audits.⁷

Prior to 2000 financial statements of state-owned enterprises were not required to be audited annually by independent auditors, but periodical or social audits conducted for the purpose of ascertaining the enterprise's tax liabilities or other purposes might be conducted by the State Audit Bureau or Tax Bureau. Since 2002, except for a few types of specialized industries that have been explicitly exempted, all other State-owned enterprises must be audited at least annually. In addition, the regulations governing the accounting of joint stock companies and foreign investment enterprises require these companies to be subject to annual audit carried out by registered Chinese certified public accounting firms. When reporting on whether the financial statements of foreign investment enterprises are

⁶ <http://www.worldbank.org/html/prddr/trans/octnovdec01/pgs23-24.htm>

⁷ Francis B. Narayan Lead Financial Specialist Asian Development Bank

prepared in accordance with the relevant laws and regulations, auditors may make reference to the following main laws and regulations.⁸

In Western countries limited liability companies are generally subject to an annual audit carried out by independent external auditors whose role is to express an objective opinion on the truthfulness and fairness of the financial statements.

4.1.4 Accounting for Maars China

According to the top management of Maars China, the accounting information must provide a clear picture about the current situation of Maars China. Reliable and correct financial information are important for the top management to make well informed decision. For Maars Holding the financial information is an objective control tool. Beside this the financial information provides Maars Holding the necessary information to make a well information decision on corporate level. The decisions made on the corporate level have significant influence for the subsidiaries of Maars Holding, include Maars China.

Next to this, accounting information is an effective control system for Maars China. The financial information is objective and easy to measure. According to Maars China the accounting information will be used for the decision making and control. Therefore the management accounting is important for Maars China.

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- ⁸ The PRC Sino-foreign Equity Joint Venture Law (EJV Law) promulgated by the National People Congress (NPC), effective July 8, 1979 and revised March 15, 2001;
 - Implementing Regulations of the EJV Law promulgated by the State Council (SC), effective September 20, 1983 and revised July 22, 2001;
 - The PRC Sino-foreign Cooperative Joint Venture Law (CJV Law) promulgated by the NPC, effective April 13, 1988 and revised October 31, 2000;
 - The PRC Wholly Foreign-Owned Enterprise Law (WFOE Law) promulgated by NPC, effective April 12, 1986 and revised October 31, 2000;
 - Implementing Rules of the WFOE Law promulgated by SC, effective December 12, 1990 and revised April 12, 2001;
 - The PRC Small and Medium Enterprises Law (SME Law) promulgated by NPC and effective June 29, 2002;
 - The PRC Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises (FIEs Income Tax Law) promulgated by NPC and effective July 1, 1991;
 - Implementing Regulations of FIEs Income Tax Law promulgated by SC and effective July 1, 1991.



Maars China Project 2008: Standard Chartered Shanghai. Pudong Area

4.2 *Current situation*

4.2.1 Maars Holding

The accounting system of Maars Holding is based on a double accounting system, namely financial and management accounting. The purpose of financial accounting is purely based on the demands of the audit requirements of the homeland, because audit requirements are country specific. The other system is management accounting. The content of this accounting is very important for Maars Holding, because in this report the financial health of the holding is described in detail. The composition of management accounting is based on Dutch GAAP. All subsidiaries of Maars Holding have to report financial information according to the management accounting structure of Maars Holding. All subsidiaries, except Maars China, have only sales activities; Maars Holding hosts the production and transport to the subsidiaries. Maars China consists of a production facility and sales activities. The accounting report of Maars China is more complex, because it includes more details like production costs, purchasing of raw materials, depreciation costs, etc. It is the first time that Maars Holding has to deal with financial reports from a subsidiary with a production facility and sales activities.

Maars Holding has the intention to make the accounting systems for all of their subsidiaries uniformly based on Dutch GAAP. Most subsidiaries in Europe have more similarities with Dutch GAAP than Maars China. For them it is easier to execute the demands of the Maars Holding. But in some countries like China, this is not an easy job to do. Accounting systems are for a large part influenced by environmental factors; Europe and Asia have totally different environments and this is also recognizable in their accounting systems, and therefore it is not so easy to execute the requests of the Maars Holding.

4.2.2 Maars China

Maars China itself was first orientated into financial reporting that was only intended to serve the governmental needs of China. Maars China did not work with two accounting systems before. The current financial accounting is based on the Chinese GAAP. Maars China has to report financial accounting according to the Chinese GAAP which is in accordance with the Chinese law. Financial accounting is only used for external parties. In the case of Maars China, the financial accounting is only tax oriented and used by the Chinese government. For Maars Holding the financial accounting of Maars China which is based on the Chinese GAAP is not important. Maars Holding has little knowledge about the financial accounting of Maars China. Maars Holding has no further interest in getting familiar with the financial accounting system of Maars China.

As we said before, Maars Holding works with a double accounting system; they also want to receive management accounting from Maars China according to the Dutch GAAP structure. Therefore Maars China is now generating two kinds of reports, although the accounting system and theories of China are based on financial accounting. The management accounting is introduced in 2007 in Maars China. It is mainly used by Maars China and Maars Holding internally. The current management accounting of Maars China is too complex for the financial department. It is based on the structure of Maars Holding and the Dutch GAAP. The financial department of Maars China is not familiar with this management accounting structure. This has caused problems for recording and reporting of management accounting information.

With appropriate literature and support of the Maars Holding, Maars China is trying to implement the management accounting system. Maars Holding sent their financial controller to China for a week to educate the financial supervisor on the management

accounting system. After that, the received management accounting report from Maars China was still not correct and the financial manager of Maars China still had a lot of questions. We also noticed this in the month to month reports where many corrections take place. The problem is partly caused by a poor understanding of the Chinese culture. A follow-up of knowledge transfer is therefore highly recommended.

Theoretically, we can distinguish between financial and management accounting. The current financial and management accounting of Maars China are discussed below.

4.2.3 Management accounting

Theoretically, the purpose of accounting in general is to report the current financial position of Maars China and to show how the organization performed over a particular period of time. For Maars China accounting has three main purposes: accountability, control and planning and decision making. It is important that the financial information provided by the financial department is accurate, up to date and reliable.

Accountability

Accounting is about accountability. Maars China as an organization is accountable for its actions and activities and whether the goals are achieved. The goal of a profit organization like Maars China is making profit. The financial information provided by the financial department measures the performance of Maars China. Currently, the financial information provided by the financial department is not correct and unclear. The numbers do not match the activities and position of Maars China. This presents a wrong picture of Maars China and causes a weak accountability. Also the individual, group activities and actions are not accountable, due to incorrect financial reporting.

Control and planning

Accounting information is an important control tool within the organization, because it provides objective information. Especially the management accounting is important for internal control. Management accounting provides more detailed financial information and can be adapted to the needs of Maars China. Control will not be effective when the financial information is incorrect. Maars China is growing and becomes more complex. The Chinese culture is very hierarchic and control plays an important role. The employees in general are anticipative and not independent. Therefore the control system becomes more important and has to be accurate. Currently, the accounting control system is not used or can not be used because of incorrect or not up-to-date financial information. When control is not effective, it is hard to make a planning. For example, the payment and cash flow: during our staying the financial department has no control about the cash flow, because the financial information is not correct. It is useless to make a planning for payments, because half the time the cash flow is negative, this means that payments will not be done.

Decision making

The decisions made by the top management are largely depending on the financial information as provided by the financial department. For example, the investment decision, marketing decision, etc. It is very frustrating for Maars China and also for Maars Holding that financial reporting is unclear and the numbers are not correct. This has a big impact on the decisions made by the top management. The decisions that are made by the top management have a big impact on the whole organization. Therefore it is important that information is reliable and up to date.

For the top management of Maars China the management accounting is more important than the financial accounting because management accounting deals with information that is not made public and is used for internal decision making only. These reports are far more detailed than financial accounting and can cover performance and activities of departments,

products and employees. It is an accounting system that helps management achieve the goals and objectives of the organization with an emphasis on measurement, analysis, communication and the control of financial and non-financial information.

Bottleneck

Our interviews with the financial employees and managers of Maars China and Maars Holding provide us with insight on the cause of the problems (accountability, control and decision making).

Communication

For reliable and up-to-date financial information, the financial department is depending on information from other departments like purchasing, sales and production. The communication between the financial department and other departments is infrequent and misty. Each department is very isolated and collaboration is hard. Currently, the financial information delivered by other departments is not up-to-date and reliable.

Cost price calculation

Part of the current problem lies in company specific circumstances. The absence of cost price calculation results in unreliable financial data. The turnover, costs and profit are based on the calculated cost prices. The cost prices include direct and indirect costs related to the finished product. The cost price is not yet available. This is the cause of wrong data input.

Financial policies and procedures

Financial policies and procedures only exist within the financial department and they are very bureaucratic and not effective enough to fulfill the need to control. The lack of formalized and standardized financial policies and procedures caused information problems. For example, the financial department is not familiar with the purchasing contracts. Price, delivery and payment conditions are thus unclear for the financial department. This control mechanism is lacking in Maars China. Currently, the purchasing department is solely responsible for the purchasing contracts.

Education and knowledge

The background of the financial department is based on the Chinese accounting system. Chinese accounting only includes financial accounting. The financial supervisor of Maars China is not familiar with management accounting. This caused problems to record and report financial information according to the management accounting structure.

4.2.4 Financial accounting

International accounting

There are many accounting problems with an international aspect, but in this section we will discuss just one of them, namely multiple reports. Two sets of problems can be identified, those that arise in reporting international operations in homeland financial statements, and those that arise in reporting the business activities within the host country. The first set of problems is very much a domestic matter of the homeland. The second is derived from the foreign affairs of the host country. The involvement in international activities arises because the business is transnational and investments are made outside the homeland, or simply because it trades with foreign countries.

Not only is there the host country's requirement for increased disclosure, there are also the needs of the shareholders in different countries. When the shares of a company are all held within one country then requirements for financial information depend upon the principles of that country. Both those who prepare the accounts and those who use them know the rules. There are various ways in which this problem can be tackled. The Accountants International Study Group recommended that two kinds of financial statements be

recognized as necessary: primary statements for a company's domestic users, and secondary statements for users of a company's account in other countries. Choi (1980) who believes that such statements have a potential to mislead users outside the homeland, suggests that the secondary financial statements should be accompanied by environmental disclosures. Such disclosures would indicate which business and financial practices are common to the homeland and which ones to the host country.

An alternative approach to the problem would be single domicile reporting. In this the multinational company would merely have to convert and translate the consolidated financial statement from the currency and language of one country to the currency and language of another. These statements and possibly the translation would be provided as a courtesy to users in foreign countries in an effort to try and improve communications. They should not, however, try to use the accounting principles of the user country. It has been argued that a financial statement can reflect only a single point of view and that has to be the country of the domicile company. It has been argued that it is too difficult or even impossible to reproduce the accounts and rework them according to the rules and conventions of each user country. This translation and conversion approach means the users of accounts in foreign countries would have to obtain at least a general understanding of the accounting principles in the domicile countries themselves.

Regardless of the best solution, there can be no doubt that there is a growing need for harmonization. The problem of the differences in accounting practices can be frustrating for shareholders, creditors and potential investors when there is no easy comparing of the results of different companies. The problem has been made more pressing recently because of the increasing internationalization of the capital markets. It is in the interest of both European companies and European investors that harmonization of accounting standards is global, rather than just European. In further developing this standard, one must take into consideration that European harmonization must not isolate itself (as if standards elsewhere are of no importance). It would be sad if a European commission moves in one direction, the United States Financial Accounting Standards Boards in another and the Chinese authorities in yet another.

Realistically, it is time for all standard-setting bodies to recognize that they should not be producing standards in isolation, that there is a need for joint development and for an appropriate forum for such a development.

What is needed is a forum for standard-setting bodies to meet and agree on an international standard. International Accounting Standard Commission intended to achieve just that but, in practice, in very few countries does the accounting profession actually set the standards. Would it then be a solution to transform IASC into a forum where the real standard-setters meet (and that implies a mixture of governmental organizations and private bodies)? International standards proposed by such an organization could more easily be directly implemented in each country.

China realized that the old accounting system could not meet the demands for financial information from financial backers, outside investors, investment bankers and financial analysts. It considered trying to use the traditional accounting systems as basis for market-oriented accounting. But in the end it just decided to abandon most of the traditional accounting systems and adopt a system elsewhere in the market.

With the economic globalization and the development of a market economy in China and accession to the World Trade Organization, convergence of Generally Accepted Accounting Principles (GAAP) to International Accounting Standards (IAS) is inevitable. Financial reports are the most fundamental way in which Maars Holding and Maars China communicate its operating results and financial position to outsiders. As more and more

enterprises and banks intend to raise funds on the international capital market, it is necessary to provide financial reports that international investors can understand. If financial reports are prepared or provided only in Chinese Accounting Standards (CAS), which is still in many aspects very different from IAS, it may be difficult for international investors to understand and compare these reports with other investment opportunities. So communicating solely on the basis of national GAAP can affect the capital raising activities of the enterprise. For Maars Holding the shareholders and investors are in The Netherlands. This means that international accounting is at this moment not very important in communicating the results to its shareholders and investors. For Maars Holding, the Dutch GAAP is sufficient at this moment.

Inconsistencies between the Chinese and the Dutch GAAP

In many aspects, the Chinese GAAP parallels the IAS and indirectly the Dutch GAAP, since China has referred to IAS in the process of formulating its own accounting standards. But there are differences between the Chinese GAAP and the Dutch GAAP. A comparison between the Dutch GAAP and the Chinese GAAP will take place. We will discuss the external influences on China's accounting development to get a better picture about the Chinese GAAP. (For more detail see appendix 3, 5 and 6)

Because of the differences that exist between the Chinese GAAP and the Dutch GAAP, at the end of every month Maars China typically gets busy preparing two sets of books: one in accordance with the Chinese GAAP and one in accordance with the Dutch GAAP.

The accounting policies of certain activities required under the Chinese GAAP are designed to focus on truthfulness and prudence, since the market economy is not mature enough in China. A good example is, there are lots of, in most cases related, non-monetary transactions in China where it is difficult to determine a fair value. To prevent listed companies to use this opportunity to polish their financial statements, China has issued an Accounting Standard for Non-monetary Transactions, which describes how to deal with the respective accounting treatments of non-monetary transactions involving exchange of similar and dissimilar assets. In the Dutch GAAP we do not have a standard like this.

China prefers using historical costs as the measurement basis for a fair value. But the Dutch GAAP calculates financial assets and investments property according to their fair value, which form the main part of the assets in the company. Due to difficult circumstances it is almost impossible for China to gain this information. The capital market is relatively small and other commodities markets also need further improvement. Another country specific reason to use the historical costs to measure the fair value is their easily judgment of whether managers of state-owned companies fulfill their responsibility.

Sometimes the same activities may have different effects on the current profit. For example, the profit of an annual financial report of the Bank of Communications in 2004 based on the Chinese GAAP was 0.9 Yuan, which was only 57 percent of that reported in the prospect based on the Dutch GAAP or IAS. The most prominent difference was the transfer of a non-performance loan To China Cinda Asset Management Corporation, which increased to 1.2 billion Yuan according to the Dutch GAAP. This means the loss of the transfer of the non-performance loan is debited to expenses in the Chinese GAAP, while in the Dutch GAAP and IAS that loss is debited to additional laid-in capital.

The Chinese GAAP overlooks the rule that inventories are valued at costs or at the market price, whichever is lower, and the maximum amortization period for intangible assets is ten years, whereas using the Dutch GAAP or IAS this can be extended to a maximum of twenty years.

The Chinese GAAP does not include hyperinflation economy. We can understand this, because China is not a hyperinflation economy. But it does not mean that in the future it will not become one. Also the topic about the “related party disclosure” and certain “government grants”, is not the same as in the Dutch GAAP.

Many key characteristics determine the differences, some of them are China specific and some are specific for developing countries. At this moment, China is still a developing country according to the World Bank. This allows China to adapt the accounting system to developing country standards.

We can make three clear distinctions in the Chinese GAAP. First, users of accounting information are different from non-developing countries. For example, institutional investors are dominant accounting information users in non-developing countries, but in China we observe that they can not play an important role. Most of the stakeholders of Chinese (listed) companies are stakeholders who do not care very much about public accounting information. Second, in the light of performance evaluation and supervision, Chinese law and regulations have paid too much attention to net income, so it is not easy to replace it with a comprehensive income as the Dutch GAAP does. Finally, an open and fair market is still in the developing phase, so fair value is not reliable in most cases (Feng, 2004).

4.3 Desired situation

4.3.1 Maars Holding and Maars China

In the desired situation, Maars Holding wants Maars China to use a double bookkeeping system: financial accounting and management accounting. This system has to do the following: report the financial position of Maars China and show how Maars China has performed (financially) over a particular period of time (an “accounting period”).

4.3.2 Financial accounting

As organization, Maars China has no influence on the financial accounting system, because it is dictated by the government who formulates the accounting rules. According to the financial supervisor of Maars China and CFO of Maars Holding, there are no problems related to the financial accounting of Maars China. But to prevent any form of illegal actions and activities which can put Maars China as a whole in a negative light, like tax fraud, it is important for Maars Holding to be familiar with the financial accounting system of Maars China. In the desired situation this control is necessary.

4.3.3 Management accounting

According to Maars Holding, the management accounting of Maars China must be comparable with the structure based on the Dutch GAAP. The numbers and information of management accounting must be correct and accurate. This means that the financial department of Maars China must have the same definition and knowledge of the management accounting as the financial department of Maars Holding.

In the desired situation the management accounting information helps top management to reach the target and execute the strategy. Besides this, the management accounting information must enable the top management to deal with accountability, control, planning and decision making.

Accountability

Management accounting must provide the financial information necessary to judge to what extent the organization, department or individual is accountable for their actions and activities. It is important that the goals or job descriptions are clearly defined. To hold employees, departments or the organization accountable for their actions or activities the performance measurement must be reliable and accurate. This means that management accounting must provide the right financial information. Maars China works with a budget system; every year the sales target and the resources to achieve this sales target are defined. For example, the sales department: if the sales target is not achieved and the costs are higher than the budget, the sales department has to explain why the sales target is not achieved and the costs are too high. To hold the sales department accountable for their actions and activities, management accounting must provide reliable and accurate financial information to judge the performance of the sales department. In the desired situation, the management accounting information enables the top management to measure the performance of employees and hold them accountable for their actions and activities.

Control and planning

Management accounting is an objective and important tool for the top management to help control the entire organization and the individual employees. The budget system of Maars China is guidance for the top management and includes the financial targets. The structure of the budget system and that of management accounting is the same. Management accounting should provide financial information which enables the top management to control and compare the current situation to the budget. Besides having a control function, management accounting has to provide information which enables the top management to make or adjust a planning to achieve the goals.

Decision making

To take a well considered decision, first the vision, mission and objectives must be defined clearly. In combination with information derived from management accounting on the financial situation of the organization, top management must then be able to make a well considered decision about the future of the organization. In the desired situation, the information provided by the management accounting system must be reliable, up-to-date and accurate.

Bottlenecks

Communication

As we discussed above, a financial department is depending on information from other departments to produce reliable financial information. The communication has improved between the financial department and other departments. In the desired situation, the interdepartmental communication should support the reliability of the financial reports.

Cost price calculation

The cost price is the key element of budget, cost and profit calculations. If the input (cost price) is wrong, the output (profit) will also be wrong. So it is important to calculate the cost price as soon as possible. Clear cost price calculation must solve the problem of unreliable input in financial reports.

Financial policies and procedures

The financial policies and procedures have been formalized and standardized. This will improve the reporting structure and support the control function.

Education and knowledge

The financial department of Maars China has little or no knowledge of management accounting based on the Dutch GAAP. In the desired situation both organizations have knowledge of the Dutch GAAP and the Chinese GAAP.

4.4 Suggestions for improvement

According to our research and accounting theory, the implementation of IAS for both Maars Holding and Maars China is not achievable because of the following reasons:

- The IAS does not include country specific elements.
- The advantage of the implementation of IAS by all subsidiaries of Maars Holding is too low compared to the costs and risks
- Currently, the Dutch GAAP is sufficient for Maars Holding and Maars China.
- The implementation of IAS will not eliminate the country specific accounting systems. China still requires each company to produce accounting reports according to the Chinese GAAP.
- We propose to use two accounting systems at Maars China: the financial accounting system based on the Chinese GAAP and the management accounting system based on the Dutch GAAP. As we discussed, the financial accounting system is country specific and Maars China has no influence on it. So our suggestions are mainly focused on the management accounting system.

4.4.1 The gap between the current and the desired situation

In the table below we present the gap between the current accounting system and the desired accounting system.

Accounting Characteristics	Current situation	Desired situation
Accountability	Lacking because of unreliable financial information	Financial information to measure the performance and hold individuals and groups accountable for their action.
Control & Planning	Financial information is hardly used to fulfill control and planning needs	Financial information has to support control and planning
Decision making	Not based on financial information.	Financial information supports well informed decision making
Communication	Weak	Intensive
Financial policies and procedures	Lacking	Formalized and standardized
Cost price	Lacking	Reliable
Accounting knowledge	Maars Holding (financial and management accounting based on the Dutch GAAP) Maars China (financial accounting based on the Chinese GAAP)	Maars Holding (financial and management accounting based on the Dutch GAAP and financial accounting based on the Chinese GAAP) Maars China (financial accounting based on the Chinese GAAP and management accounting based on the Dutch GAAP)

Table 4: overview of the current and the desired situation for accounting.

4.4.2 Suggestions

To fulfill accountability, control, planning and decision making, the financial information must be reliable, up-to-date and accurate. In other words, the financial information has to reflect the actions and activities of individuals and groups. This will enable the top management to hold employees accountable for their actions and activities, have control of the situation and make a reliable planning as well as take well considered decisions.

The management of Maars China must translate the goals and targets into financial numbers. This will make goals and targets measurable in relation to financial information. For example, the sales target can be translated into financial turnover. Another example is the production department. The target of the production department can be translated into total costs. The budget will be guidance for the top management to judge whether the target is achieved. In this way each department and all employees are accountable for their actions and activities. The budget system should be the guideline for controlling and planning. The budget system includes the turnover and the cost in detail. The management accounting system provides financial information enabling the top management to compare the results to the budget. Management accounting information will enable the top management to control and judge the situation and if necessary to adjust the planning.

To ensure that the financial information is reliable, up-to-date and accurate, the next bottlenecks should be solved: weak communication, lack of financial policies and procedures, lack of cost price and a mismatch in current financial knowledge and required financial knowledge.

Communication

The communication between the financial department and other departments has been improved by direct communication, collaboration and more authority from the financial department. The Chinese culture is very hierarchic and the departments are isolated from another. Giving more authority to the financial department enables it to build up an interdepartmental communication flow. The communication can be adapted to the needs of the financial department. Communication must be direct and does not always have to include the department managers only. Direct communication and less bureaucratic financial policies and procedures will increase collaboration between the financial department and other departments. An intensive communication and collaboration between the financial department and other departments will increase the reliability of the input.

Financial policies and procedures

The financial policies and procedures have been developed and implemented in the whole Maars China. The duties of the financial department have to be formalized and standardized. The financial policies and procedures must be easy to understand for all employees. When Maars China becomes more complex and the activities are increasing, formalization and standardization of financial policies and procedures is necessary to keep control and prevent chaos. The formalized and standardized financial policies and procedures include the responsibility and authority of the financial department. This will clarify how other departments can contribute and help the financial department to execute their financial duties. For example: giving reliable information to the financial department will help it to produce a reliable and accurate financial report.

Cost price

A clear and reliable cost price input will increase the reliability of the management accounting system. The cost price is a combination of direct and indirect costs of production. The cost price calculation can be done by the financial department in collaboration with the production department. Maars Holding has already a cost price calculation formula which can be used at Maars China. The cost price will also increase the reliability of the budget system.

Education and knowledge

The financial department of Maars China has only knowledge of the Chinese GAAP and the financial department of Maars Holding has only knowledge of the Dutch GAAP. We propose a knowledge transfer from Maars Holding to Maars China and vice versa. The aim is to let both financial departments have knowledge of the Dutch GAAP as well as the Chinese GAAP. This will improve the understanding of the financial systems of both organizations. The accounting report will be better understood and the reliability of the report will increase. Another advantage of this knowledge transfer is that in future very well informed financial decisions can be made, because of the knowledge of both GAAPs.



Maars China Factory Kunshan

5. Integral implementation plan

The implementation plan is discussed in this chapter. The implementation plan involves the organization structure and the accounting system. During our research we recognized that both research objects are part of the overall problem and that they are interdependent. In the implementation plan we combine the solution to both research problems. We try to provide a bigger contribution to the solution of the overall problem of Maars China. Solutions are always related to change. During the solution implementation, we have to deal with two main issues: resistance to change and an implementation strategy.

5.1 *Resistance to change*

Uncertainty

Implementation is always uncertain. The change of an organization's structure and accounting system will influence the whole organization. Since implementation always has unexpected issues, we must be prepared to adjust our original strategies and plans frequently. Therefore, discovering the best times to adjust is an important process in implementation. To reduce the uncertainty it is important to make the change transparent and gain organization wide commitment. Make clear why the change is necessary and what to expect.

Cultural differences

Take the cultural differences into account. The Chinese employees are more susceptible to change which will bring uncertainties. Personal interest is important for the individual employee. The middle management will therefore play an important role in closing the cultural gap and the distance between the top management and the operational employees.

5.2 *Implementation strategy*

Establish a sense of urgency for change

The implementation of a new organizational structure and accounting system is complex. It involves all departments of Maars China. It is important that the top management identifies the true need for change, by creating a sense of urgency that change is really needed. Employees must be encouraged to invest the time and energy needed to adopt new techniques and procedures.

Top-down strategy

The top management has the overview of the organization. They are the drive behind changes and have the power to put changes into the practice. We propose to implement the new organizational structure and accounting system top-down. This means we will start on the management level and work our way down to the operational level.

Identify and target the resources and key players

In the beginning and during the implementation process it is important to identify and target the resources and key players. This will make the implementation process easier and contribute to a general acceptance.

Create change team

The implementation of a new organizational structure and accounting system will be a full time job. Therefore it is recommended to create a project team to complete this process. The team will be responsible for the whole process from start to finish. It is important that the top management supports the project team in accomplishing the implementation plan.

Milestones and feedback

Project phases are usually divided into activities and tasks and at the end of each activity there is a milestone. The milestones show the progress of our performance; we evaluate them and adjust our original plans if necessary. We do not have to wait for milestones in order to adjust our original plans. But at the milestones, we should at least recognize and praise our attainments. Recognition and praise revitalize our implementation energy, thereby monitoring the process closely.

Evaluation

After the implementation process is completed, it is important that the results of the new organizational structure and accounting system are evaluated and adjusted to circumstances and needs. This last evaluation step will give a clear picture on how the new organizational structure and accounting system work in practice.

5.3 To do list

In our research results we observed similarities between solutions for organizational and accounting problems. For the organizational problem we propose a combination of a functional and divisional structure for Maars China. For the accounting problem we propose to make two accounting reports: one based on the Dutch GAAP (management accounting) and the other based on the Chinese GAAP (financial accounting). To achieve the required situation the following has to be implemented:

Topics	Organization	Accounting
Formalization	More formalized structure and procedures	Establishing financial policies and procedures
Specialization	Wide job description for the blue collar and the top management. Narrow job description for departmental managers.	Increase the level of knowledge about the Dutch and the Chinese GAAP.
Standardization	Standardized policies and procedures	Standardized financial policies and procedures.
Hierarchy and authority	Clear and visible	More and visible authority to fulfill the jobs and tasks.
Complexity	Increase of the organization's complexity	
Centralization	Decentralization of operational decision	
Communication	Intensive vertical and horizontal (interdepartmental) communication	Intensive communication with other departments to improve the input of accounting reports.
Control	More effective control	Accounting systems have to fulfill the control function (used as management control tool)
Size	Increase of organizational size.	
Technology	Standardized and routine production technology. No routine and not standardized	The activities are complex but the various activities are handled on the basis of established formulas, procedures and techniques.
Goals and strategy	According to SMART	Financial information has to

		reflect the activities of Maars China
Organizational culture	According to the Chinese environment	
Accountability	High accountability of the individual activities	Tools to hold individuals accountable for their activities and actions
Decision making		Support decision making





5.4 Implementation planning

Topics	Activities	Timeframes	Key players	Results	Evaluations
Formalize and standardize policies and procedures	<ul style="list-style-type: none"> • Use existing policies and procedures as a starting point • Revise the existing policies and procedures in order to accomplish better control and improve efficiency. Add new policies and procedures if it is necessary. • Once developed, have top management and legal council review and approve the policies and procedures • Communicate the policies and procedures to all employees. Let employees know how to apply approved policies and procedures in the course of their work. • Update policies and procedures if necessary. • Standardize the formalized policies and procedures according to the need of the organization. (big and complex organizations need more standardization) 	+/- 2 months	Top management, HR, Financial and Production department.	<ul style="list-style-type: none"> • Formalized and standardized policies and procedures improve the efficiency and effectiveness of the organization. 	<ul style="list-style-type: none"> • Level of independence. Productivities. • Verbal communication on the production floor.



Job descriptions must be fitting and well defined	<ul style="list-style-type: none"> • Determine how narrow or broad the job has to be. • Describe the tasks and duties that each job should encompass. • Describe the level of performance that is expected in ways that can be measured. • Formalize and standardize the job description. 	+/- 1 month	Top management and HR department	<ul style="list-style-type: none"> • Clear and well defined job description. This will improve the accountability and authority of each job. 	<ul style="list-style-type: none"> • Performance of employees according to their job description.
Financial knowledge transfer from Maars Holding to Maars China and vice versa for a good understanding of the Dutch GAAP and the Chinese GAAP.	<ul style="list-style-type: none"> • Establish a detailed accounting book of the Dutch and Chinese GAAP specific for Maars China and Maars Holding. In these books all the definitions, formula rules are explained. The books must be available in English and Chinese. • Accounting training for better understanding of both Accounting GAAPs. • Appoint a financial manager who has the required knowledge and experience to control the financial information and deliver a reliable financial report. 	+/- 3 months (depending on current knowledge)	Top management and financial department.	<ul style="list-style-type: none"> • A good understanding of both GAAPs should improve the reliability of financial reports. 	<ul style="list-style-type: none"> • Whether correction is necessary afterwards. Whether the financial information can be used by the top management.



Clear and visible hierarchy and authority for the whole organization.	<ul style="list-style-type: none"> Define and classify the department and jobs within the organization. Clear job description and responsibility. Clear report structure (who has to report to whom) For each department and division the responsible person must be visible to gain the commitment of employees. 	+/- 3 weeks	Top management	<ul style="list-style-type: none"> Prevent chaos and internal conflict and improve the internal and external communication flow. 	<ul style="list-style-type: none"> Level of internal conflict. Whether the orders given by authorized persons are accepted and executed by employees. Level of miscommunication. The performance of employees. The awareness of employees who know who their chief is, who they also should obey outside their department. The level of authority where chiefs can make decisions whether to adapt or follow the procedures in order to secure the job with success.
Delegate the operational decisions to the lower level and keep strategic decisions centralized.	<ul style="list-style-type: none"> Make a clear distinction between strategic and operational decisions. Give managers and employees the authority and tools to make decisions related to their position. Encourage pro-active attitude of manager and employees. Reward pro- 	+/- 3 weeks	Top and middle management	<ul style="list-style-type: none"> Make the organization less bureaucratic and more flexible. Decentralization makes quick decision making possible in order to responds to external circumstances. 	<ul style="list-style-type: none"> Measurement of top management work activities. If they still are heavily involved with operational decisions, than adjustment is needed.



	active attitude.			<ul style="list-style-type: none"> The top management can focus on strategic issues. 	
Intensive vertical and horizontal communication	<ul style="list-style-type: none"> Establish a clear communication structure. Arrange meetings and discussions between departments to discuss the problems. Encourage interdepartmental communication by more collaboration. Establish sense of urgency for more communication. 	+/- 1 month	Top management	<ul style="list-style-type: none"> A clear and flexible (vertical and horizontal) communication structure makes an organization transparent. More collaboration between departments to share the knowledge, information and experience. 	<ul style="list-style-type: none"> Whether the internal communication goes smoothly. The level of result and performance of departmental collaboration. Level of direct communication. The level of (new) knowledge, information and experience sharing between different departments.
More effective control. Financial information has to support control.	<ul style="list-style-type: none"> Evaluate current control system and identify the value, the inefficiency and ineffectiveness. Determine what elements may be missing and make revisions in order to develop a new control system. Top management has to approve the new control system. The employees must be familiar with the new control system, to be aware that the actions they 	+/- 1 month	Top management, financial and HR management	<ul style="list-style-type: none"> An effective control system will prevent any undesirable action and activities of employees. The top management needs an effective control mechanism to evaluate the performance of individuals and groups. 	<ul style="list-style-type: none"> Whether the top management can use the control system to get an overview of the organization. Whether the planning is achieved. Whether undesirable actions happen.



	<ul style="list-style-type: none"> take can be measured for accountability. Apply the new control system to the whole organization. 				
Goals and strategy	<ul style="list-style-type: none"> Strategic direction must be specific, measurable, achievable, and relevant and time framed. 	+/-3 months	Top management	<ul style="list-style-type: none"> Goals and strategy should be guidance for the organization. This provides for employees a clear message of how they can contribute to reach the goals and execute the strategy. 	<ul style="list-style-type: none"> Whether the goals and strategy reflect the activities and business of Maars China. What are the influences on the performance of individuals and the whole organization.
Hold individuals and groups accountable for their activities and action	<ul style="list-style-type: none"> Set up clear job descriptions (include responsibility and accountability) The performance and goals should be measurable and achievable. Rewarding or punishment should be clear. Communication of goals and target to the employees. 	+/-2 months	Top management, financial and HR department.	<ul style="list-style-type: none"> Individuals and groups should be aware that their actions and activities have consequences for the organization's performance and they are accountable for it. This will prevent undesirable activities and actions that can harm the organization. 	<ul style="list-style-type: none"> Whether their targets and goals are achieved. Whether individual and group performances and activities can be measured and evaluated. This will increase the ability to hold employees accountable for their actions and activities.



Financial information has to support strategic and operational decision making	<ul style="list-style-type: none"> • A good understanding of the Dutch GAAP for Maars China. • The financial department must receive reliable input for the accounting report, by intensive communication and collaboration with other departments. 	+/-3 months	Top management and financial department	<ul style="list-style-type: none"> • The financial information must be reliable, accurate and up-to-date. The financial information has to reflect the reality and support decision making. 	<ul style="list-style-type: none"> • Whether the financial information is used during the decision making. Whether correction is necessary afterwards.
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6. Conclusion and feedback

6.1 Conclusion

In chapters 3 and 4 we discussed the two research problems and the suggestions for improvement for Maars China. With this we have answered our two research questions:

- How to reorganize Maars China that has become a 100% daughter company of Maars Holding?
- How to improve the current accounting system of Maars China to fulfill the requirements of Maars Holding and Maars China?

To answer the two research questions first, we analyzed the current organizational structure and accounting systems of Maars China. For the organizational structure the research has provided us with insight in the relation between contextual and structural dimensions and how these factors influenced the organizational structure. The organization is growing and becoming bigger and complex. More disciplines are added and executed. We observed that complexity is increasing vertically, horizontally and spatially. It is hard to coordinate the organization with the current organizational structure. The problem of the current organizational structure is caused by: low formalization, low standardization, ineffective control systems, lack of clear job descriptions, lack of well defined organizational goals and strategy, unclear hierarchy and authority, too little communication and collaboration between departments and highly centralized decision making (both strategic and operational). For the accounting system we analyzed management accounting based on the Dutch GAAP and financial accounting based on the Chinese GAAP. The differences between the Dutch and the Chinese GAAP are caused largely by environmental forces. The Dutch and the Chinese GAAP are country specific and are adapted to the needs of a specific country. The unreliable, not up-to-date and inaccurate financial information caused errors in accountability, control and the decision making process.

In the desired situation and the proposal for improvement we suggest a new organizational structure based on functionality and divisional structure. The implementation of this organizational structure is aimed to solve the problems mentioned in the current situation. To improve the coordination and the performance (efficiency and effectiveness) of the organization the new organizational structure focuses on formalized and standardized procedures and policies, more effective control, decentralization of operational decisions, clear and visible job descriptions, hierarchy and authority, intensive and direct communication and collaboration between the different departments. It is important for the top management to hold individuals and groups accountable for their actions and activities, have overview and control of the whole organization, and make well considered decisions based on reliable information. The financial information plays an important role in fulfilling these three requirements. The reliability of the accounting report has been improved by the developing of cost price calculation, financial knowledge transfer (Dutch GAAP), establishing financial policies and procedures, intensive communication and collaboration with other departments.

To implement the organizational structure and accounting system successfully, we propose to create a sense of urgency for change; create a change team with sufficient authority, capability and tools; identify the resources and key players, set up a project plan with milestones, have feedback and evaluation of the results.

6.2 *Feedback*

Our research topics are part of the overall problem Maars China faces. The contribution of our research results is limited to improving the organizational structure and the accounting system. These two topics have priority according to Maars China. Our research results lead to a new organizational structure and an improved accounting system. Both solutions are aimed to improve the performance of Maars China. The new organizational structure is focused on increasing the efficiency and effectiveness of the organization. The improved accounting system has to support accountability, control and decision making. The limitation of our research is partly based on human input from people who may be too closely involved with the project. The other part is our own interpretation of theories which can change from person to person. Due to the limited time we are not able to implement the results ourselves. As we mentioned above, our contribution to the solution for the overall problem is limited. To continuously improve the performance of Maars China and contribute more to Maars Holding, we suggest to analyze other topics, like how to deal with the cultural differences between Maars Holding and Maars China, how to establish intensive collaboration between those two organizations to achieve a scaling advantage and how to increase the capabilities (knowledge and resources) of Maars China to improve the performance.



Maars China Factory Kunshan Sector 3 and 4

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8. Appendix

8.1 Appendix 1: SWOT analyse

Strengths

- Maars China has his own factory in Shanghai, they do not have to import like their foreign competitors. They are more flexible compared to the direct competitors (foreign partitioning system companies)
- Willingness to invest in China. Maars Holding wants to educate personnel of Maars China, they want to bring key players of Maars China to the Netherlands and give them the know-how they need. Maars Holding also want to sent employees from Netherlands with the know how to Maars China to refresh the knowledge of employee in Maars China. This already happens in the production side.
- Brand Marketing; Maars China sells their products with their own logo because of that new clients recognize Maars product when they go to offices of other customer. The competitors do not have brand marketing.
- Early entrance into the Chinese market. Maars China has obtained know how of the market and consumers, has gained market share and has established brand recognize.

Weakness

- Lack of clear corporate strategy that encompasses decisions regarding the industries and markets in which Maars Holding is participating, how it structures itself in order to attack those markets, and how it acquires and allocates key corporate resources to carious activities and groups. Maars Holding wants to grow in China and Asia and till know Maars Holding did not make it clear how to realize this. Only strategic alliances are mentioned, no criteria where the partner should comply with, is made clear.
- Lack of action/marketing plan, operation strategy, a financial/control strategy, and a research/development strategy. The targets are formulated what Maars China should achieve, but it is not clear how to realize this.
- Organization of Maars China does not match with Chinese business environment. Maars Holding desire is SBU, but we think a visible boss is necessary.
- As we look to the organization Chart of Maars Holding we can see that the intended Organization chart still miss some key areas who should have communicated with Maars China. These missing areas are: project and sales management and both of the jobs are now done by the General Manager of Maars Holding.
- No clear cost-structure. Maars China has a poor financial system; there is no clear cost price of products. Also, different accounting rules cause wrong management information.
- Lack of cultural knowledge of Maars Holding and Maars China. There is no family feeling in the company what is strongly desired by Chinese employee and maybe this is cause of continue changing employee. Also we have seen that Chinese employee abuse the poor knowledge of Maars China, they claim extra money to say that government rules is changed and that employee should get extra money but in the most cases this is not necessary.

Opportunities

- Organization – based operating capabilities; Maars China has the ability to master new technologies, design and introduce new products. Because of the location of the Factory near other foreign factors like, Siemens and Mercedes, creates a more innovative environment with possible advances.
- In source capabilities; Maars Holding can outsource majority of standard products to Maars China. Maars China can take advantage of supplier's lower factor costs and can thereby decrease there cost and improve quality. The manufacture of the standard products can be made within Maars China, the fabricate cost are lower than in Maars Holding. Actually we can see it also as another form of vertical integration, some of the standard products moves only from the Netherlands to Khunsan, in the end Maars Holding is the owner of Maars China.
- Advancements in technology; critical business information for Maars China around the world is instantaneously available. Top – managers can communicate with each other from any place at any time. These technology advancements are making national boundaries and the physical location of management increasingly unimportant. Furthermore, improvements in transportation and increasing standards from China to the world are making the physical location of manufacturing facilities less important than in the past.
- Expansion possibilities in rest of China and Asia; Maars China is currently generating 80% of their turnover in Shanghai and now and then in Beijing. China is a country what still is growing and therefore Maars China can make use of this growth and increaser their turnover rates and this counts also of course for Asia.
- Product differentiation; Maars China can make use of the well developed R&D department of their headquarters. One of the new products of Maars Holding is the CUBE. It is office environment which makes it possible to integrate plugs, cables and audio equipment, like sound and television system, fully in the partitioning system. The CUBE is very popular in Middle East and high potential in Asia. In China there is demand for innovative partitioning system.
- Market differentiation; R&D department of the headquarters also invented partitioning systems what is not only applicable for the office market. Nowadays, Maars Holding is targeting hospitals and hotels ass their client. Hospitals wants partitioning systems what is easy to clean and disinfect and Maars Holding answered their needs by using special material for partitioning of hospitals. This new product is very popular in United States and we believe also applicable for Asia.
- Transfer physic R&D; The ideas can still be invented in the Netherland bus the realization of the idea can be transferred to China because of the lower invention and wage cost.

Threats

- Energy; China's energy infrastructure is tenuous; unlike the Netherlands, energy sources are consistently unreliable in certain parts of China, and power outages are common, as areas of the country have simply grown more quickly than the power infrastructure can handle. In addition, it's not uncommon for the local government to declare non-production (work stoppage) days if dignitaries are coming to the area in order to clean up the air before their arrival. You can imagine what kind of problems this can give Maars China and the headquarters, think about penalty clause for not be able to deliver on time etcetera.
- Multiple Chinas; It's important to understand that there are "multiple Chinas" within its various regions and provinces, each having its own strengths and weaknesses in regard to doing business. For an Dutch business to be profitable in China, these differences must be assessed; Maars China and the headquarters think they can tap into the Chinese market and open one office in one location that can cover sales and distribution throughout the entire country. This simply isn't the case. The

country is so large that, depending upon where you locate your business, you'll have lengthy supply chains even within the country, never mind internationally. Plus, although the road system continues to improve, a lot of product still travels by water. It's important to consider all of this when planning a China strategy.

- Labour-management; Maars China (fully owned due Maars Holding) have to pay greater attention to labour relations. There is a little doubt that social unrest is on the increase. The state subsidies for daily necessities and a rapidly –rising cost of living encourages workers inside and outside of Maars China to demand higher wages. They also become more aware of their rights to a decent working environment.
- Finding the right staff and hold them; Maars China has difficulty to find the right staff for their departments. Many of the candidates worked in a collective environment and their experiences are what they achieved together and Maars China on the other hand seeks to find candidates who can install a department own their own.
- Permission/Bureaucracy; Procedures to obtain permission for what kind of intention is one important task to take in consideration. It takes a lot effort to find out where you have to be, what kind of steps you have to take and which jurisdiction is valid for your permission. We have noticed that every permission that Maars China had to get in Shanghai have take a lot time, more than it was forecast.
- Guangxi; Guangxi (relationship) is a complicated field for Maars China and Maars Holding. A special feature of doing business in China will be that Guangxi in Maars China will have to include relationship with the government body, investors, partners and even relationship with their own staff, so when doing business in China, it is important for Maars China to learn to coordinate with the China government, especially establishing good relationship with government bodies dealing with foreign trade and economic cooperation. A good relationship with (local) government can decrease the bureaucracy.
- Governmental procedures for Maars China in establishing investments in China is extremely complicated, thus if one is unfamiliar of the procedures, one will delay his/her business opportunities. Therefore it is important for Maars China to be familiar with the investment procedures before carrying their investment in China. A safer and more appropriate way will be to seek help from local organizations familiar in the same field of business or consultant firms who are able to provide professional advice and assistance.

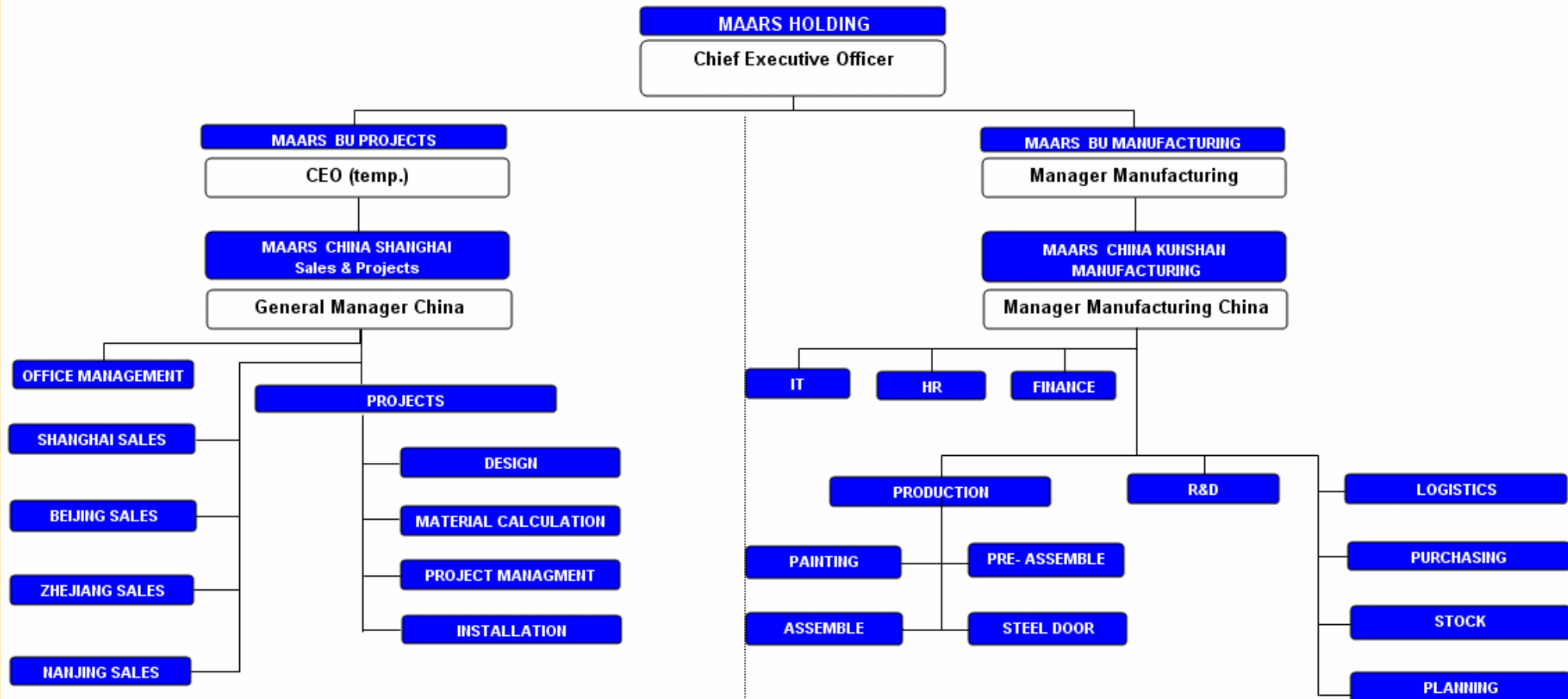
8.2 Appendix

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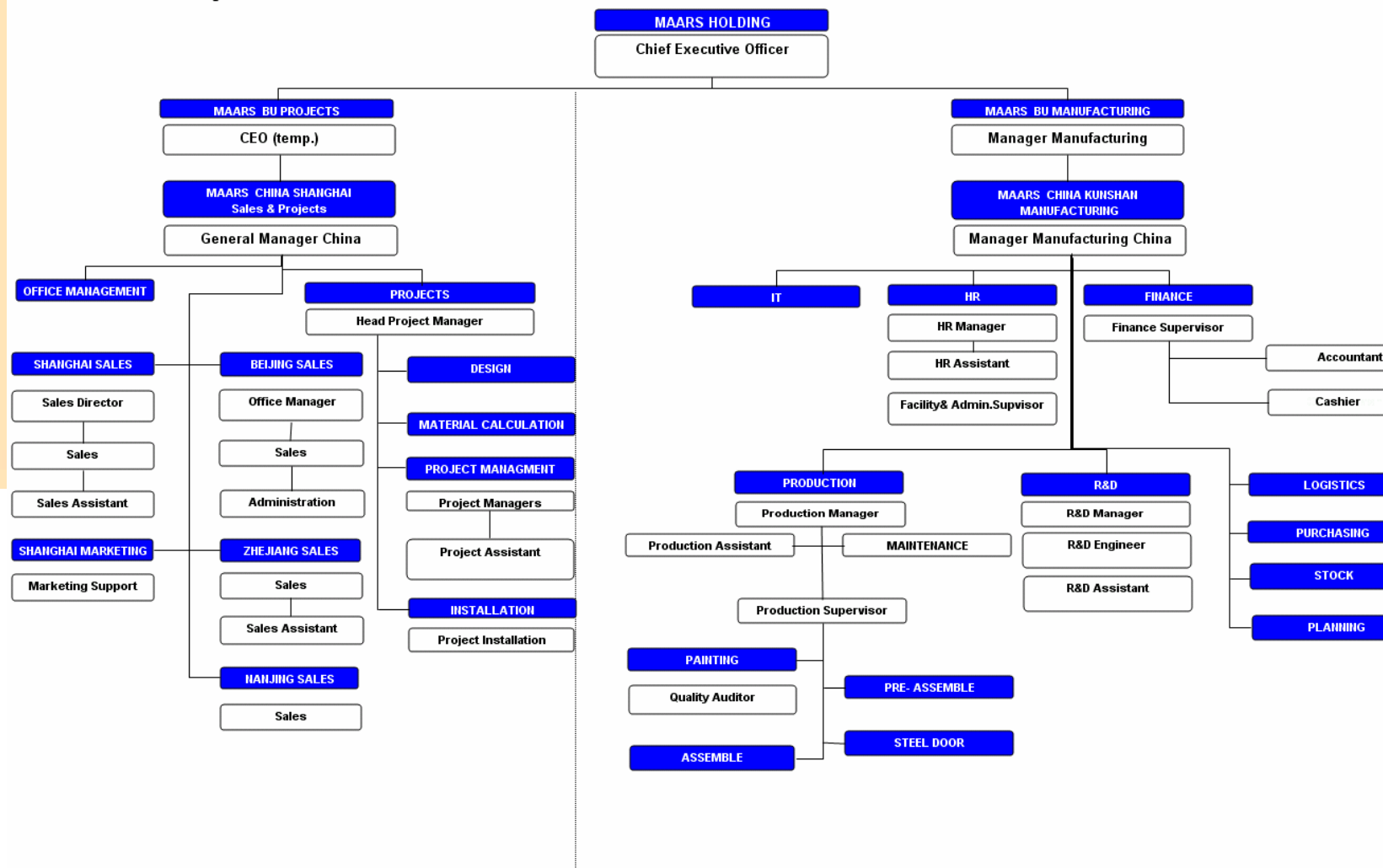
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structure

Current organisation structure of Maars China

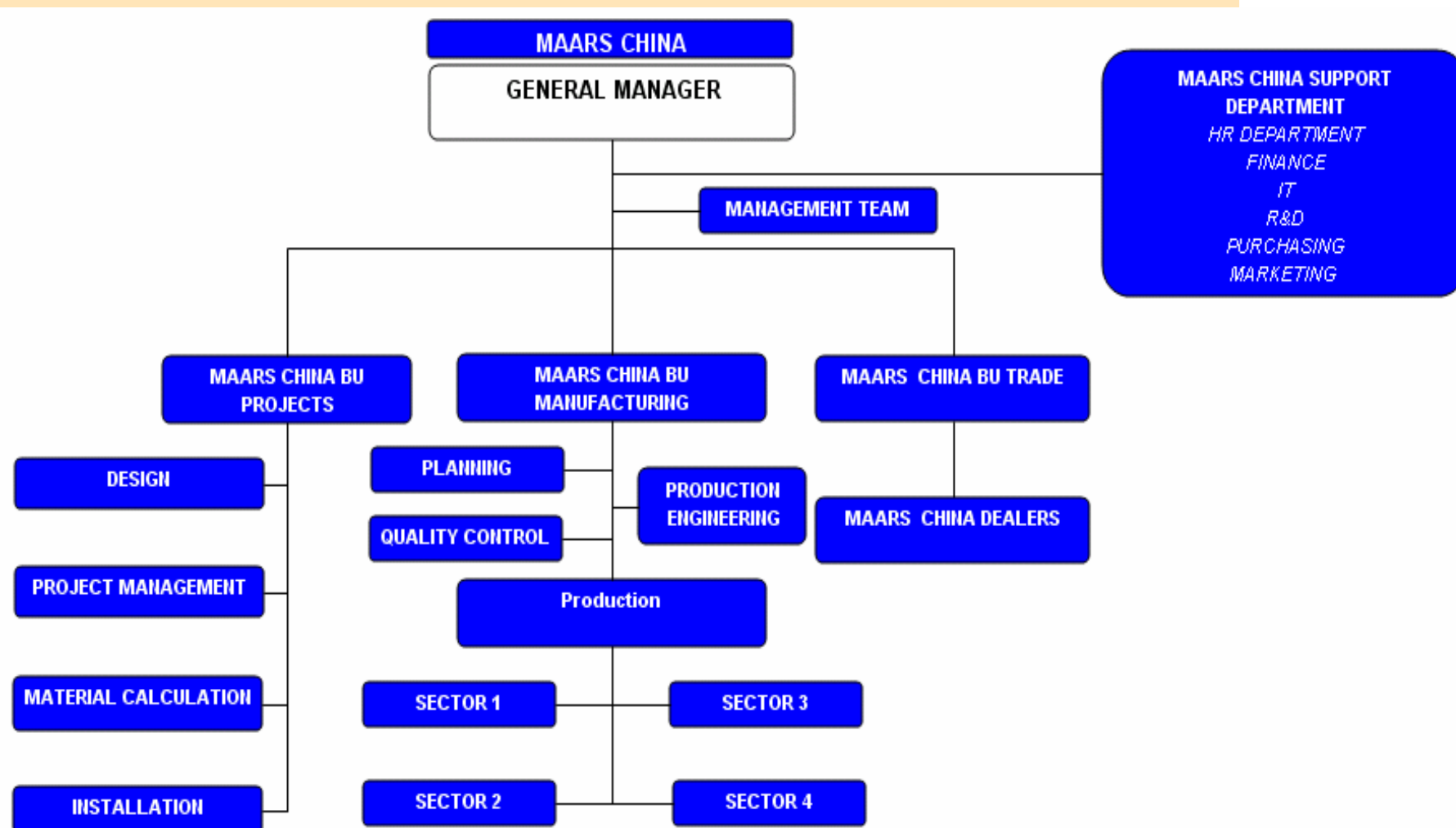


Current organisation structure of Maars China in detail



Headcount:	Shanghai Branch Total :	43
	Proj. Management/Staff:	11
	Proj. Installation:	17
	Shang Hai Marketing :	2
	Shang Hai Sales:	4
	Beijing Sales:	3
	ZheJiang Sales:	3
	NanJing Sales:	1
	Drivers:	2

Headcount:	KunShan Factory Total :	41
	HR Dept.:	3
	Finan. Dept.:	2
	R&D Department:	3
	Prod. Management:	5
	Prod. Workers:	24
	Logist. Dept.:	3
	Cleaner:	1



8.3 Appendix 3: External influences on China's accounting development

According to the international accounting theory, the development of accounting system is constrained by the environmental factors. This means the Chinese accounting development is influenced by its environmental factors.

The influences of environmental factors on China's accounting development from 1949 till present could be summarized in a table (see below).

	Political	Economic	Legal	International	Cultural	Educational	Professional
1949-1957	X	X		X	X	X	
1957-1961	X			X			
1961-1966	X	X			X	X	
1966-1978	X						
1979-1992	X	X	X	X	X	X	X
1992-present	X	X	X	X	X	X	X

Table 1 overview of the influences of environmental factors on China's accounting development

Political influences

The political factor's influence on China can be seen from the entire process of China's accounting development as shown in the table above. Some political factors can influence accounting systems and practices. Political factor influences accounting most probably via its system and the level of freedom. Political systems can determine one country's economic system and its accounting patterns: an accounting system which serves the market-oriented economy differs from an accounting system which serves the centrally controlled economy. (Zhang, 2005)

As shown in the table above the political factor's can be seen from the entire process of China's accounting development from 1949-present.

As a socialist country, China's political system decides China's economic system and indirectly decides the China's accounting pattern. Before 1979 a centrally controlled Chinese economy causes a unified accounting system and after 1979, when the Chinese economy become more market-oriented, the accounting system has become more flexible, which was much more towards internationalization (globalization).

The Chinese Communist Party (CCP) played an important role in every aspect of China's political and social life. The China's politics, economics, culture, accounting and other aspects were controlled by CCP. China has only one party who decide what happens.

The transition of China's accounting system shows features, which closely related to the features of the Chinese political system, and the CCP's and Central Government's political requirements and political movement. In 1949 the People Republic China (PRC) abandoned the old accounting system and established a new accounting system, which can better serve the needs of PRC. After the Cultural Revolution, the CCP shift to an open door policy to attract foreign investment, therefore an improved accounting system was necessary. Also this accounting system served the CCP's requirements for a socialist planned economy and controlled by the government. This new accounting system was a copy of Soviet Union accounting model with some adjustments.

In 1992 CCP reformed definition to constructing the socialist market economy market, also the accounting system had to be adapting to the needs of socialist market economy. The new accounting system was still based on Marxism, Leninism, Maoist and Deng Xiaoping theory (Zhang, 2005). The many changes of accounting system from 1949-present are closely related to CCP's decisions and political movements. China has its own interpretation of market economy. The CCP or government is still the key player in this market economy. In the future it is almost unthinkable that CCP will dismiss one party politic and allow other party to join it. For Maars China they have taken this into account, democracy like Western is (almost) impossible in China.

The transition of China's accounting system from its establishment (1950) to its revision (1952,1955), abolition (1958), recovery (1962), destruction (1966), recovery (1979), and reformation (1992) displays many irregular changes. The reasons for these irregular changes are all closely related to and are results of the Party's decision and political movements. This background of Chinese accounting is not familiar for Maars China.

Legal influences

Legal factors are concerned with one country's legal system, taxation, and accounting legislation. These factors may affect direct/indirect country's accounting standards, accounting function, accounting pattern and the details of accounting regulation. Concerning the relationship between tax and accounting, Seidler made this point: worldwide tax collections constitute the greatest source of demand for accounting services. The tax on income, both on the individual and business enterprise level, is the largest source of revenue for governments of countries with literate populations. Income tax evasion is frequently grounded in distortions of records or in absence of records. Therefore, tax collecting governments initially become involved in the bookkeeping and accounting procedures followed by individuals and companies, to provide some assurance of collecting taxes (Seidler, 1981)

Taxation may have a big influence on one country's accounting practice, especially for accounting measurements. In many countries, law, in particularly tax law, is the only reason that accounting is done, China is a good example of this. In these countries accounting rules and practices are spelled out in laws. In most of these countries there is no difference between tax accounting and financial accounting. In other countries, like the Netherlands, published accounts are designed as performance indicators for investment decisions, where commercial rules operate separately from tax rules in a number of accounting areas. For Maars China Chinese GAAP is just a measurement how much tax they have to pay.

As a socialist country, China's legal system is different from the Western's legal system. Maars China has difficulty to adapt to these differences. Chinese legal system is more complex and bureaucratic. There are also differences among the places in China. Most of the time the local government give their own interpretation of national law, also in Shanghai. This is also the case for tax and sometime accounting reports. We also experience that due by the complex law, even the local government does not know how to execute the rules. Many countries in the world can be divided into one of two categories with respect to their main legal system: common law and civil law. Chinese legal system belongs to the civil law. Concerning accounting affairs, China does not belong to the common law, whose rule try to provide an answer to a specific case rather than to formulate a general rule for the future, or civil law system in which detailed rules are established in company law or commercial codes. The establishment of PRC Company Law in 1993 was the first step. This law only regulated that corporations could establish their financial and accounting system according to executive regulations and rules made by the Financial Administration Department within the State Council, and were to list the financial reports that corporation could present to the public. Another accounting related law was the PRC Security Law, established in 1999, which only required listed companies to disclose their final and mid-term financial reports to

the public, while the format and the contents of the financial reports had been regulated in accounting system. So we can observe that even legal system had some effect on China's accounting after 1993. (Zhang, 2005)

Almost all the executive rules and regulations were formulated and issued by the Ministry of Finance (MOF) or the State Council before 1979. Unified accounting systems were set up to guarantee the implementation of the national economic plan. Due by this circumstance, the CCP and the government are both the maker and actor of the law at the same time. This will give the CCP all the power to decide and execute the system.

It was only after 1979 that China's legal system was recovered and perfected. After this, legal factors began to influence Chinese accounting development, especially in accounting practice, and this influence has become more stronger than in recent years, due by the perfecting of China's legislation system and strengthening of people's legal sense.

Taxation's influence on Chinese accounting system varied in different periods from 1949-present. Also the taxation rules and regulations are mostly formulated and issued by the MOF and the State Council. China's finance and taxation was not divided clearly before 1984, when the finance and taxation system reform began. Tax issues, when limited only to an area, such as a province, municipality or autonomous region, and taxation concerning foreign affairs or investors, are subject to the approval of the MOF. Other issues of taxation are subject to the approval of the local authorities of provinces, municipalities, and autonomous regions, but the policies of imposition, reduction and exemption of duties must be submitted to the General Customs Bureau and the MOF and may be enforced when approved by the State Council. (Zhou, 1987)

Economic influences

The types of economic systems may decide one country's basic orientation of the economic system and the degree of government involvement in the economic sector, and decide the objectives of accounting. In communist countries, the state owns all production facilities, makes most of the economic and business decisions, and controls virtually all operations through a central planning and control system. These countries have a highly standardized and uniform accounting system to facilitate the government's planning and control function, and there are few users of accounting information other than the government. In market-capitalist economies, there is predominantly private ownership. With greater individual freedom in economic activity and decision-making, a correspondingly greater diversity in accounting practices is permitted and practice. There are also more users of accounting information in addition to the government. (Arpen and Radebaugh, 1985). We agree with this, in China there are few users of accounting system beside the government and company. The accounting system is highly standardized and the control is tight. For Maars China the accounting software are dictated by the government, even the printer and other accounting related equipment are not free to chose.

"Stages of economic development may decide the complexity of accounting practice and theory. The higher the level and growth of income, the higher the political and economic freedom and the better the adequacy of reporting and disclosure. This may apply to any economic system, since economic growth in some socialist countries was often followed by an effort to liberalize the regimes" (Belkaoui, 1985). " At extremely low levels of economic development, there is few economic activities and correspondingly little financial, tax, or managerial accounting. As the level of economic activity and size of companies increase, there is a corresponding increase in accounting activity. This continues through each successive stage of development, albeit with certain lags" (Lowe 1967) We can confirm this theory by observing the economic activities in China. The last years China had a fast economic growth which attract foreign investment. Also the political and economic freedom increase in very small steps. The income of average Chinese grows due by the economic growth. We observe that China faced pressure from (foreign) investors to set clear

accounting system according to the IAS. Also the degrees of international business activity may affect both accounting principles and methods.

The influence of China's economic environment on China's accounting development after 1979 was increasing, caused by the open door policy of Chinese government. Though the economic factors influence on accounting depends on Chinese political decision first, but during the steady periods, like now, the economic influence on accounting is more important. The Chinese economic system is controlled by the government (politics), and it will further decide Chinese accounting pattern. As a socialist country China's economy is totally under control of the government, also the accounting system.

China's economy had many different periods, with different experiences. This effected the accounting system development during those periods. The first period was at the beginning of new China. During this period the recovery and construction of economy was given the priority. To support this, a highly standardized and uniform accounting system was established to facilitate the government's planning and control function.

The second period was recovery period after Great Leap Forward, in which the recovery of the economy required the accounting system to be recovered. Not only were the accounting system recovered, but regulations on accounting personnel and accounting work was also be established.

The third period was after 1979, when the government focuses on the changed to economic construction and open door policy. The diversity of economic forms and development of the economy proposed new requirement on accounting. This resulted in the establishment of accounting legal system, but China was still a social planned economy, the system only served planned economy accordingly.

The fourth was the period after 1992 until now. Accounting standards and new accounting systems serving the market economy system were established. Together with the deepening of economic system reform and open door policy, as well as China's economy moving towards internationalization, detailed accounting standards were issued one after another from 1997. As China had stepped into a market economy and a global competition environment, economic influence became stronger. China's economic orientation is controlled by China's political orientation, and the economic orientation decided China's accounting development. During the steady period of China's political environment, economic factors played the most important role in the development of Chinese accounting system. (Zhang, 2005)

Enterprises reform influences

China's accounting reforms have been largely responsive to the country's enterprise reform. China's recent economic reforms, particularly the enterprise reform, have profoundly altered the country's accounting environment. The ownership structure of the industrial and commercial enterprises in China are now highly diverse. State enterprises, generating 34 percent of industrial output in 1995 compared with 78 percent in 1978, have lost their dominance; much of the industrial output is currently produced by the non-state sectors. Collectively owned enterprises are the largest sector of the Chinese economy, while enterprises with foreign investment and individually owned enterprises play an increasingly important role. China have evolved from a closed economy with negligible imports and exports to one of the world's major trading nations. These changes have altered China's accounting environment and have resulted in a fundamental change in the role of financial reporting in China. (Zhang, 2005)

The enterprise reform in China has produced the demand for investor and creditor oriented information. A close look to the detailed accounting standard, suggests that certain salient attributes of China's accounting environment deviate sharply from what is typically presumed under IAS. The lack of professional and independent auditing is probably the most important attribute. The IAS are primarily Anglo-Saxon oriented and permit a significant amount of discretion in financial reporting. The implementation of IAS requires professional judgment from management as well as from auditors. Professional independence and enforcement of standards have been identified as the two critical issues in international auditing. Audit independence, the essence of the auditor's function, is a crucial pre-condition for China's detailed accounting standards. The auditing independence in China will not become a reality in the near future. Auditing of the Stated Owned Enterprises (SOE) is mainly conducted by auditing firms that are either state audit bureaus (Tang et al. 1996) or state owned auditing firms. In fact, it is common practice to have an SOE's audit conducted by an auditing firm which belongs to the same ministry. The usefulness of accounting has to be evaluated with the development of other mechanisms. For example, even if China has the most advanced accounting system, but its judiciary system is unreliable, the execution of the accounting rules will be questionable.

Cultural influences

A lot of cultural factors influence accounting practice. The most importance cultural factors which influence accounting practice are society's degree of conservatism, secrecy, distrust, and fatalism, coupled with the people's attitudes toward business and the accounting profession itself. Society's degree of conservatism influences a number of accounting principles and practices, especially valuation and profit determination. Society's degree of secrecy most directly affects the amount of disclosure, which an enterprise is willing to make in its external reporting. The higher the level of secrecy or distrust to the outsiders, the lower the level of disclosure would be. Societal attitudes toward business may range from distrust and antagonism to wholehearted support and trust. The attitude toward the accounting profession affects the status of the profession, the type of person who enters it, its credibility, and the work that accountants perform. (Zhang, 2005)

The direction and development of Chinese accounting standards mainly depend on its politics and economic factors. In practice there was no accounting standards before 1992. Only unified and rigid accounting system and regulation was existed. In this light even Chinese culture had some influence on China's accounting in this time, this influence will be very weak. As show in table during the severe political movement period, culture has no impact on the Chinese accounting development. Only during the steady period, could culture influence some details of accounting method. During our staying in Maars China, we observe that the Chinese culture influences the accounting practice in detail, for example how accountant use the financial data's, the purpose of accounting, etcetera. The central planned economy in the past and the hierarch culture, have resulted that the accounts are just follow the rule and not be creative and self employed. Especially in China where the rules are complex and conflicting, there are many interpretations of the same rules.

International influences

Economic relationship with other countries may have influence on one country's accounting system development. This international relationship is very obvious in China. Pressures to change international accounting have become stronger. These pressures come from growing international economic/political interdependence, new trends in foreign direct investment, rapid growth of international financial markets, expansion in business services, and activities of international regulatory organization (like WTO, IMF, Europe Union)

"The greater the amount of a country's international trade, the greater is its need for accounting practices concerning foreign exchange transactions and translations. Going a step further, the number and size of a country's multinational firms is directly related to the

development of accounting rules for consolidation of foreign source income" (Arpen and Radebaugh, 1985).

After the establishment of PRC in 1949, a Sino-Soviet relationship was established. The Soviet Union offered support to China and China had accepted this support, this support includes the establishment of an accounting system related to the accounting system of Soviet Union. In fact China's accounting used the Soviet model during the period from 1949 until 1992. After 1992, a new accounting system was established. The international factors, mostly from the West in the form of globalization and harmonization of the markets, began to influence the China's accounting. China's new accounting system was established with the help of international accounting firms and (financial) aid from the World Bank. Beside this in the light of international convergence, China's accounting system had been revised many times to fit international standards.

Table show us that the international factor's influence on China's accounting mainly concentrated on two periods; the establishment of new China in 1949 and in 1992. Both of them were controlled and guided by the China's politics. For example, the discussion that accounting can lead to a class feature, China didn't chosen Western accounting methods and they copied the Soviet Union accounting methods, which served the socialist economy. In this light we can conclude that the international factor's influence on China's accounting depends on China's political orientation and movements. China accepts the international influence selectively according to its political needs. This means that the convergence trend of Chinese GAAP toward International Accounting is highly depend on the political movement.

According to our research the international influence on China's accounting development can also been found in the case of Deloitte & Touche. Since 1993, DTT has cooperated with the MOF on a several significant projects including the development of accountancy standards and revision of accountancy law. The DTT's case example presents not only the international but can also relate to the professional influence on China's accounting.

Professional communities influences

The nature of the profession feeds back into the type of accounting that is practiced and could be practiced. Where there is a more developed accounting profession there is likely to be more developed, judgmentally based public accounting systems rather than more centralized and uniform systems (Radebaugh. 1997). Due by the political movement the Chinese accounting profession is not well developed. Not only foreign companies like Maars China, but also domestic companies face this problem. There is big shortage of well educated accountant in China. The trend of Chinese GAAP toward IAS will be prevented by the shortage of well educated accountant.

There are mainly two accounting professional and theoretical communities in China, one is China's Accounting Society, established in 1980, and the other is the Chinese CPA Association, established in 1988. The main task of the Chinese Accounting Society is conducting theoretical accounting research. The main task of the Chinese Institute of CPAs is to serve, monitor, manage, and coordinate CPA industrial work. It was and is not directly involved in formulating Chinese accounting standards. In reality those two organizations are only the tools of government's propaganda of Chinese government. This shows that China's professional bodies are controlled by the government. They do not possess independent status, which shows that China's politics also influence its accounting professional bodies and accounting research. The need of the market for well educated accountant is not served at this moment. Because the government does not have the necessary information, which only can be gained by the business association. So the demand and supply does not fit.

Educational influences

The educational characteristics of a country have a significant effect on its accounting practices. These educational characteristics encompass the degree of literacy, including the ability to use simple mathematics; the percentage of people who have received formal schooling at various levels; the basic orientation of the educational system and the educational match (Arpen and Radebaught, 1985)

The educational influence on China's accounting has also been affected by China's politics. First China's educational system is controlled by the government and in turn the educational system influence China's accounting education and indirect the accounting practice. The contents of accounting education depended on the government direction. After the PRC was established in 1949, China received educational help from the Soviet Union. China also copied the Soviet Union's financial and economic colleges. During the Great Leap Forward and Cultural Revolution, the education system was destroyed due by the political movement and class struggle. As a result, no accounting education existed. After 1978, the government recovered the education system, and teaching accounting as a business discipline was found in all major universities and colleges. The destroying of education system has brought China in a big lag.

Economic system reform and open door policy proposed a higher demand on accounting, and enabled western accounting to be taught again. Especially after 1992, the definition of a socialist market economy and the reform of China's accounting system. Western accounting textbooks available in universities, and scholars are sent abroad to study western accounting theory and method. But this happens in very slow tempo and in minority. The average education level is still low.

The process of China's accounting education development demonstrates the political guiding function on China's accounting education. The development, contents, and methods of China's accounting education first of all is decided by its politics, then the need of economic development and practice.

We can conclude that China's accounting development is strongly influenced by China's politics first, when China's politics are steady, like now, other factors, like economic, culture, professional and etcetera. begin to exert influence on accounting. The influence of those factors is always related to the politic direction. In other words, economic, culture, professional and etcetera. factors influence accounting in the direction according to the political movement. We will never see, for example the influences of economic factors on accounting is not according to the political needs. It is easy to recognize that during the entire process of China's political and economic development of the past 50 years, the CCP and its leaders have exerted a very strong influence on all aspects of China's political and economic development. Direct and indirect the political and economic factors are the biggest drivers behind the China's accounting development of the past 50 years in China. We have full confident that this will continue in the future. The economic growth, the open door policy, the pressure from the WTO and FDI will only have impact on accounting development in the future when it is according to the political needs.

But it does no say that, China accounting standards have achieved significant progress. With its plans for further developments, we expect China will see further convergence with IAS, while at the same time, ensuring that its standards are adapted to the specific circumstances of its developing economy during the transitional period.

Despite the efforts by the Chinese government to bridge the gap in Chinese GAAP, it is important to note however that some users, include Maars China, of Chinese GAAP have considered that such financial statements have proved insufficient for international users not because of the differences between the Chinese GAAP and IAS. The main internal

problem is a lack of transparency, auditor independence and reliable financial information, and a shortage of qualified accounting professionals.

Influence on the accounting system of Maars China

The Chinese accounting system is mainly (indirect) affected by its political orientation. The stability of China's politics in the last two decades, resulted in increasing of the influence of economic factor on the China's accounting development. The open door policy and the economic reform of the Chinese economy proposed the establishment of an accounting system based on the IAS. As result we observe that China shift the accounting practice and methods away from a government orientation (government as the end-user of accounting information) to a market orientation.

The cooperation between Chinese government and international accounting firms has cause a better understanding of Chinese and international accounting practice. The stability of the China's politics during the last two decades resulted in a steady improvement of Chinese accounting system. We observe a trend toward internationalization of Chinese accounting practice. China believe that adapting IAS for the domestic accounting system should be a less costly and faster approach to achieve accounting reforms. Compared to before the open door policy and economic reform, it is easier for foreign company to understand the Chinese accounting system. But there is still a gap between the Chinese and IAS. The cooperation between Chinese government and the international accounting firms offer Maars China the ability to cooperate with international accounting firms (like BDO) who has the knowledge of Chinese GAAP and IAS.

For Maars China the development of Chinese accounting system in the past years will give Maars China a better understanding of Chinese accounting system. The financial accounting report of Maars China is dictated by the development of China's accounting system. The stability of China's politics and Western orientation of accounting system will drive Maars China's financial accounting system more and more toward international accounting standard.

Due to the economic reform to more market oriented economy and a global competition environment, the needs of accounting system is also changed in this direction. The main purpose of accounting system of Maars China is not to serve the government's planning and control function, but use it for its business purposes.

8.4. Appendix 4: ASBE

Accounting Standard for Business Enterprises:

Basic Standard Chapter 1 General Provisions

- Article 1 In accordance with *The Accounting Law of the People's Republic of China* and other relevant laws and regulations, this Standard is formulated to prescribe the recognition, measurement and reporting activities of enterprises for accounting purposes and to ensure the quality of accounting information.
- Article 2 This Standard shall apply to enterprises (including companies) established within the People's Republic of China.
- Article 3 Accounting Standards for Business Enterprises include the Basic Standard and Specific Standards. Specific Standards shall be formulated in accordance with this Standard. Article 4 and enterprise shall prepare financial reports. The objective of financial reports is to provide accounting information about the financial position, operating results and cash flows, etcetera. Of the enterprise to the users of the financial reports, in order to show results of the management's stewardship, and assist users of financial reports to make economic decisions. Users of financial reports include investors, creditors, government and its relevant departments as well as the public.
- Article 5 an enterprise shall recognize measure and report transactions or events that the enterprise itself have occurred.
- Article 6 in performing recognition, measurement and reporting for accounting purposes, an enterprise shall be assumed to be a going concern.
- Article 7 An enterprise shall close the accounts and prepare financial reports for each separate accounting period. Accounting periods are divided into annual periods (yearly) and interim periods. An interim period is a reporting period shorter than a full accounting year.
- Article 8 Accounting measurements shall be based on unit of currency.
- Article 9 Recognition, measurement and reporting for accounting purposes shall be on an accrual basis.
- Article 10 an enterprise shall determine the accounting elements based on the economic characteristics of the transactions or events. Accounting elements include assets, liabilities, owners' equity, revenue, expenses and profit.
- Article 11 An enterprise shall apply the double entry method (i.e. debit and credit) For bookkeeping purposes.

Chapter 2 Qualitative Requirements of Accounting Information

- Article 12 An enterprise shall recognize, measure and report for accounting purposes transactions or events that have actually occurred, to faithfully represent the accounting elements which satisfy recognition and measurement requirements and other relevant information, and ensure the accounting information is true, reliable and complete.
- Article 13 Accounting information provided by an enterprise shall be relevant to the needs of the users of financial reports in making economic decisions, by helping them evaluate or forecast the past, present or future events of the enterprise.
- Article 14 Accounting information provided by an enterprise shall be clear and explicable, so that it is readily understandable and useable to the users of financial reports.
- Article 15 Accounting information provided by enterprises shall be comparable. An enterprise shall adopt consistent accounting policies for same or similar transactions or events that occurred in different periods and shall not change the policies arbitrarily. If a change is required or needed, details of the change shall be explained in the notes. Different enterprises shall adopt prescribed accounting

policies to account for same or similar transactions or events to ensure accounting information is comparable and prepared on a consistent basis. Article 16 an enterprise shall recognize, measure and report transactions or events based on their substance, and not merely based on their legal form.

- Article 17 Accounting information provided by an enterprise shall reflect all important transactions or events that relate to its financial position, operating results and cash flows. Article 18 an enterprise shall exercise prudence in recognition, measurement and reporting of transactions or events. It shall not overstate assets or income nor understate liabilities or expenses.
- Article 19 and enterprise shall recognize, measure and report transactions or events occurred in a timely manner and shall neither bring forward nor defer the accounting.

Chapter 3 Assets

- Article 20 An asset is a resource that is owned or controlled by an enterprise as a result of past transactions or events and is expected to generate economic benefits to 2
- The enterprise. "Past transactions or events" mentioned in preceding section include acquisition, production, construction or other transactions or events. Transactions or events expected to occur in the future do not give rise to assets. "Owned or controlled by an enterprise" is the right to enjoy the ownership of a particular resource or, although the enterprise may not have the ownership of a particular resource, it can control the resource. "Expected to generate economic benefits to the enterprise" is the potential to bring inflows of cash and cash equivalents, directly or indirectly, to the enterprise.
- Article 21 A resource that satisfies the definition of an asset set out in Article 20 in this standard shall be recognized as an asset when both of the following conditions are met: (a) it is probable that the economic benefits associated with that resource will flow to the enterprise; and (b) the cost or value of that resource can be measured reliably.
- Article 22 an item that satisfies the definition and recognition criteria of an asset shall be included in the balance sheet. An item that satisfies the definition of an asset but fails to meet the recognition criteria shall not be included in the balance sheet.

Chapter 4 Liabilities

- Article 23 A liabilities is a present obligation arising from past transactions or events which are expected to give rise to an outflow of economic benefits from the enterprise. A present obligation is a duty committed by the enterprise under current circumstances. Obligations that will result from the occurrence of future transactions or events are not present obligations and shall not be recognized as liabilities.
- Article 24 An obligation that satisfies the definition of a liability set out in Article 23 in this standard shall be recognized as a liability when both of the following conditions are met: (a) it is probable there will be an outflow of economic benefits associated with that obligation from the enterprise; and (b) the amount of the outflow of economic benefits in the future can be measured reliably.
- Article 25 an item that satisfies the definition and recognition criteria of a liability shall be included in the balance sheet. An item that satisfies the definition of a liability but fails to meet the recognition criteria shall not be included in the balance sheet.

Chapter 5 Owners' Equity

- Article 26 Owners' equity is the residual interest in the assets of an enterprise after deducting all its liabilities. Owners' equity of a company is also known as shareholders' equity.
- Article 27 Owners' equity comprises capital contributed by owners, gains and losses directly recognized in owners' equity, retained earnings etcetera. Gains and losses directly recognized in owners' equity are those gains or losses that shall not be recognized in profit or loss of the current period but will result in changes (increases or decreases) in owners' equity, other than those relating to contributions from, or appropriations of profit to, equity participants. Gains are inflows of economic benefits that do not arise in the course of ordinary activities resulting in increases in owners' equity, other than those relating to contributions from owners. Losses are outflows of economic benefits that do not arise in the course of ordinary activities resulting in decreases in owners' equity, other than those relating to appropriations of profit to owners.
- Article 28 the amount of owners' equity is determined by the measurement of assets and liabilities.
- Article 29 an item of owners' equity shall be included in the balance sheet.

Chapter 6 Revenue Article

- Article 30 Revenue is the gross inflow of economic benefits derived from the course of ordinary activities that result in increases in equity, other than those relating to contributions from owners.
- Article 31 Revenue is recognized only when it is probable that economic benefits will flow to the enterprise, which will result in an increase in assets or decrease in liabilities and the amount of the inflow of economic benefits can be measured reliably.
- Article 32 an item that satisfies the definition and recognition criteria of revenue shall be included in the income statement.

Chapter 7 Expenses

- Article 33 Expenses are the gross outflow of economic benefits resulted from the course of ordinary activities that result in decreases in owners' equity, other than those relating to appropriations of profits to owners.
- Article 34 Expenses are recognized only when it is probable there will be outflow of economic benefits from the enterprise which result in a reduction of its assets or an increase in liabilities and the amount of the outflow of economic benefits can be measured reliably. Article 35 Directly attributable costs, such as product costs, labor costs, etcetera. incurred by an enterprise in the process of production of goods or rendering of services shall be recognized as cost of goods sold or services provided and are charged to profit or loss in the period in which the revenue generated from the related products or services are recognized. Where an expenditure incurred does not generate economic benefits, or where the economic benefits derived from expenditure do not satisfy, or cease to satisfy, the recognition criteria of an asset, the expenditure shall be expensed when incurred and included in profit or loss of the current period. Transactions or events occurred which lead to the assumption of a liability without recognition of an asset shall be expensed when incurred and included in profit or loss of the current period.
- Article 36 an item that satisfies the definition and recognition criteria of expenses shall be included in the income statement.

Chapter 8 Profit

- Article 37 Profit is the operating result of an enterprise over a specific accounting period. Profit includes the net amount of revenue after deducting expenses, gains and losses directly recognized in profit of the current period, etcetera.
- Article 38 Gains and losses directly recognized in profit of the current period are those gains and losses that shall be recognized in profit or loss directly which result in changes (increases or decreases) to owners' equity, other than those relating to contributions from, or appropriations of profit to, owners.
- Article 39 the amount of profit is determined by the measurement of the amounts of revenue and expenses, gains and losses directly recognized in profit or loss in the current period. Article 40 an item of profit shall be included in the income statement.

Chapter 9 Accounting Measurement

- Article 41 In recording accounting elements that meet the recognition criteria in the accounting books and records and presenting them in the accounting statements and the notes (hereinafter together known as "financial statements"), an enterprise shall measure the accounting elements in accordance with the prescribed accounting measurement bases.
- Article 42 Accounting measurement bases mainly comprise: (a) Historical cost: Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds or assets received in exchange for the present obligation, or the amount payable under contract for assuming the present obligation, or at the amount of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business. (b) Replacement cost: Assets are carried at the amount of cash or cash equivalents that would have to be paid if a same or similar asset was acquired currently. Liabilities are carried at the amount of cash or cash equivalents that would be currently required to settle the obligation. (c) Net realizable value: Assets are carried at the amount of cash or cash equivalents that could be obtained by selling the asset in the ordinary course of business, less the estimated costs of completion, the estimated selling costs and related tax payments. (d) Present value: Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate from its continuing use and ultimate disposal. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities within the expected settlement period. (e) Fair value: Assets and liabilities are carried at the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
- Article 43 and enterprise shall generally adopt historical cost as the measurement basis for accounting elements. If the accounting elements are measured at replacement cost, net realizable value, present value or fair value, the enterprise shall ensure such amounts can be obtained and reliably measured.

Chapter 10 Financial Reports

- Article 44 A financial reports is a document published by an enterprise to provide accounting information to reflect its financial position on a specific date and its operating results and cash flows for a particular accounting period, etcetera. A financial report includes accounting statements and notes and other information or data that shall be disclosed in financial reports. Accounting statements shall at least comprise a balance sheet, an income statement and a cash flow statement. A small enterprise need not include a cash flow statement when it prepares financial statements.
- Article 45 a balance sheets is an accounting statement that reflects the financial position of an enterprise at a specific date.

- Article 46 an income statement is an accounting statement that reflects the operating results of an enterprise for a certain accounting period.
- Article 47 A cash flow statement is an accounting statement that reflects the inflows and outflows of cash and cash equivalents of an enterprise for a certain accounting period.
- Article 48 Notes to the accounting statements are further explanations of items presented in the accounting statements, and explanations of items not presented in the accounting statements, etcetera.

Chapter 11 Supplementary Provisions

- Article 49 The Ministry of Finance is responsible for the interpretation of this Standard. Article 50 This Standard becomes effective as from 1 January 2007.

8.5 Appendix 5: the structure of IAS and Chinese ASBE.

Structure of IAS and Chinese ASBE

The structure of International accounting standard	Chinese ASBE
IFRS1 First-time adoption of international financial reporting standards	ASBE38 First-time adoption of accounting standards for business enterprises
IFRS 2 Share-based payment	ASBE11 Shared-based
IFRS 3 Business combinatiетoon	ASBE20 Business combinations
IFRS 4 Insurance contracts	ASBE25 Direct insurance contracts
IFRS 5 Non-current assets held for sale and discontinued operations	
IFRS 6 Exploration for and evaluation of mineral resources	ASBE27 Extraction of petroleum and natural gas
IFRS 7 Financial instruments: disclosures	ASBE37 Presentation of financial instruments
IFRS 8 Operating segments	ASBE35 Segment reporting
IAS1 Presentation of financial statements	ASBE30 Presentation of financial statements
IAS2 Inventories	ASBE 1 Inventories
IAS7 Cash flow statements	ASBE31 Cash flow statements
IAS 8 Accounting policies, changes in accounting estimates and errors	ASBE28 Accounting policies, changes in accounting estimates and correction of errors
IAS 10 Events after the balance sheet date	ASBE29 Events after the balance sheet date
IAS 11 Construction contracts	ASBE15 Construction contracts
IAS 12 Income taxes	ASBE18 Income taxes
IAS 16 Property, plant and equipment	ASBE 4 Fixed assets
IAS 17 Leases	ASBE21 Leases
IAS 18 Revenue	ASBE14 Revenue
IAS 19 Employee benefits	ASBE 9 Employee benefits
IAS 20 Accounting for government grants and disclosure of government assistance	ASBE16 Government grants
IAS 21 The effects of changes in foreign exchange rates	ASBE19 Foreign currency translation
IAS 23 Borrowing costs	ASBE17 Borrowing costs
IAS 24 Related party disclosures	ASBE36 related party disclosures
IAS 26 Accounting and reporting by retirement benefit plans	ASBE10 Enterprise annuity fund
IAS 27 Consolidated and separate financial statements	ASBE33 Consolidated financial statements
IAS 28 Investments in associates	ASBE 2 Long-term equity investments
IAS 29 Financial reporting in hyperinflationary economies	
IAS 31 Interests in joint ventures	ASBE 2 Long-term equity investments
IAS 32 Financial instruments: presentation	ASBE37 Presentation of financial instruments
IAS 33 Earnings per share	ASBE34 Earning per share

IAS 34 Interim financial reporting	ASBE32 Interim financial reporting
IAS 36 Impairment of assets	ASBE 8 Impairment of assets
IAS 37 Provisions, contingent liabilities and contingent assets	ASBE13 Contingencies
IAS 38 Intangible assets	ASBE 6 Intangible assets
IAS 39 Financial instruments: recognition and measurement	ASBE12 Debt restructuring
IAS 40 Investment property	ASBE 3 Investment property
IAS 41 Agriculture	ASBE 5 Biological assets



8.6 Appendix 6: Comparison between Chinese GAAP and Dutch GAAP

IAS and IFRS	Chinese ASBE	Dutch GAAP	Chinese GAAP
IFRS1	ASBE38	General principle is full retrospective application of IFRSs in force at the time of adoption, unless the exemptions in IFRS1 permit or require otherwise.	No differences
IFRS2	ASBE11	Current accounting standards only relate to the accounting for equity-settled share-options with employees. Equity-settled share-options with employees are measured at their intrinsic value at the grant date and this value is recognized immediately as an expense.	Accounting for equity-settled share-based payment transactions also with other parties. Only covers the accounting for share-based payment transactions for which services are received. Equity settle with cash alternatives-not addressed in ASBE 11 as this type of share-based payment is very rare in China.
IFRS3	ASBE20	Accounting method: the purchase method is required for combinations classified as acquisitions and the pooling of interests method is required for combinations classified as uniting of interests. Intangibles: an intangible asset is recognized separately from goodwill when it meets the definition of an intangible asset, its fair value can be measured reliably and it is probable that any associated future economic benefits will flow to the acquirer. Deferred tax assets and liabilities: as an alternative, DASs Allow acquired tax assets and liabilities to be discounted. Goodwill: the benchmark treatment is that goodwill should	Accounting method: al business combinations should be accounted for using the purchase method. The pooling of interests method is prohibited. Intangibles: must always be recognized and measured. There is no “reliable measurement” exception. Deferred tax assets and liabilities: in determining its fair value, acquired tax assets and liabilities should be measured against nominal value. That means discounting is not allowed. Goodwill: goodwill should be capitalized, but should subsequently not be amortized. Instead, it should be tested for impairment annually at the reporting unit level.

		<p>be capitalized and subsequently systematically amortized over its useful life. There is a rebuttable presumption that the useful life of goodwill will not exceed twenty years</p> <p>From initial recognition. An enterprise should, at least at each financial-year end, estimate the recoverable amount of goodwill that is amortized over a period exceeding twenty years from initial recognition, even if no indication exists that it is impaired. Based on Dutch law</p> <p>DASs also permits the method by which goodwill is charged immediately to the shareholders' equity or profit and loss account.</p> <p>Acquisition costs: recognize as part of the acquisition costs.</p> <p>Partial disposal of an investment in a subsidiary while control is retained: not required, but allowed.</p> <p>There is no specific accounting prescribed in NL GAAP for these transactions. An acceptable method is to apply "acquisition accounting".</p> <p>Acquiring additional shares in the subsidiary after control was obtained: not required.</p> <p>Reverse acquisitions are covered in Dutch GAAP but are not addressed in ASBE 20.</p>	<p>Acquisition costs: recognize immediately as an expense.</p> <p>Partial disposal of an investment in a subsidiary while control is retained: this is accounted for as an equity transaction with owners, and no gain or loss is recognized.</p> <p>Acquiring additional shares in the subsidiary after control was obtained: this is accounted for as an equity transaction with owners (like acquisition of "treasury shares"). Goodwill is not remeasured.</p> <p>Business combinations involving entities under common control are outside the scope of Dutch GAAP but addressed in ASBE 20.</p>
IFRS4	ASBE25	DASB has published an accounting standard for insurance companies. Many differences exist between this accounting standard and ASBE 25.	

IFRS5	ASBE	No requirement for non-current assets held for sale or disposal groups.	Does not exist in Chinese GAAP
IFRS6	ASBE27	<p>Scope: applies to expenditure incurred for the exploration and evaluation of mineral resources.</p> <p>Measurement: permits enterprises to continue to use their existing accounting policies for exploration and evaluation assets, provided that such policies result in information that is relevant and reliable. At initial recognition, the costs of exploration and evaluation assets include expenditure on topographical, geological, geochemical and geophysical studies.</p> <p>Impairment: impairment testing is required only when facts and circumstances suggest the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.</p>	<p>Scope: only cover the accounting treatment of the exploration for, exploitation and production of petroleum and natural gas.</p> <p>Measurement: Only allow the cost model and capitalization of exploratory drilling costs. Costs other than exploratory drilling costs shall be expensed as incurred.</p> <p>Impairment: require an impairment test to be performed for mineral interests in unproved properties at least annually. For mineral interests in proved properties, impairment testing shall be performed when there is an impairment indication. Impairment losses are not reversed in future.</p>
IFRS7	ASBE37	Qualitative and quantitative information required about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk.	No differences
IFRS8	ASBE35	Only applies to the published financial statements of enterprises whose equity or debt securities are publicly traded and enterprises that are in the process of issuing equity or debt securities in public securities markets. Identification required of two segments: one based on related products and services, and the other on geographical areas.	ASBE 35 requires an enterprise which has different operations or operates in different geographical areas to provide segment information.

IAS1	ASBE30	Allows an enterprise to present an analysis of expenses using a classification based on either the nature of expenses or their function, whichever provides information that is reliable and more relevant.	Under ASBE 30, expenses are only analyzed by function.
IAS2	ASBE1	LIFO is permitted, but not recommended. Inventories shall be measured at the lower of cost and net realizable value or at current cost ("replacement value").	LIFO is prohibited. Inventories measured at current cost is not allowed.
IAS7	ASBE31	Only large and medium-sized legal entities are required to present a statement of cash flows. Reporting cash flows from operating activities: an enterprise is encouraged to use the direct method but may use the indirect method. Dividends and interests: the items mentioned in ASBE 31 are required to be classified as operating, investing or financing activities in a consistent manner.	All entities are required to present a statement of cash flows. Reporting cash flows from operating activities: ASBE 31 requires the use of the direct method, accompanied by a note showing the reconciliation of profit to net cash flow from operating activities using the indirect method. Dividends and interests: ASBE 31 specifies the appropriate classification for interest received (cash inflow from investing activities) and paid (cash outflow from financing activities) and dividends received (cash inflow from investing activities) and paid (cash outflow from financing activities).
IAS8	ASBE28	Correcting errors: Distinction between fundamental and other material errors. Fundamental errors shall be recognized retrospectively in the first set of financial statements authorized for issue after their discovery. Others material errors are recognized in profit or loss.	Correcting errors: Material prior period errors shall be recognized retrospectively in the first set of financial statements authorized for issue after their discovery.

IAS10	ASBE29	Declared dividends after the balance sheet date: The balance sheet should be drawn up before or after the appropriation of profit. If the latter option is used, a difference with ASBE 29 could arise, because an entity is allowed to present the proposed dividend as a liability at the balance sheet date.	Declared dividends after the balance sheet date: Declared dividends through holders of equity instruments after the balance sheet date should not be recognized as a liability at the balance sheet date.
IAS11	ASBE15	Costs for securing a contract: allows direct cost incurred in securing a construction contract to be included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. Definition of a construction contract: A construction contract is defined in a more broad sense which might lead to a broader application of the percentage of completion method. Presentation of construction contracts: contains an alternative treatment allowing the balance of all construction contracts to be shown as one amount. If this balance is a credit balance it shall be presented as a liability. Work in progress on construction contracts is a separate line item.	Costs for securing a contract: Requires such costs to be expensed as incurred. Definition of a construction contract: a construction contract that must be specially negotiated for the construction of an asset. Presentation of construction contracts: an enterprise should present: the gross amount due from customers for contract work as an asset; the gross amount due to customers for contract work as a liability.
IAS12	ASBE18	Revaluation of property, plant and equipment: items of property, plant and equipment can be revalued. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability. Recognition of deferred tax assets: a deferred tax asset is not recognized if the probability of realization is only connected to the existence of a deferred tax liability relating to revalued	Revaluation of property, plant and equipment: the recognition of a deferred tax liability is not required but recommended. However, if no deferred tax liability is recognized, this should be disclosed including the quantitative effects. Recognition of deferred tax assets: recognition of a deferred tax asset if it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

		assets. Measurement of deferred tax assets and liabilities: measured at nominal value (undiscounted) or at present value (discounted).	Measurement of deferred tax assets and liabilities: not to be discounted.
IAS16	ASBE4	Revaluation: allows both the cost model and the revaluation model. If an item of property, plan and equipment is revalued, the entire class of property, plan and equipment to which that asset belongs shall be revalued. Major inspection and maintenance: Allowed to recognize a provision for costs of major inspection and maintenance.	Revaluation: Only allows the cost model Major inspection and maintenance: generally accounted for as part of the cost of an asset.
IAS17	ASBE21	Leasehold interest in land shall be classified as an operating lease unless it meets certain criteria and is accounted for as an investment property under the fair value model.	Leasehold interests in land are accounted for as intangible assets except for land use rights that meet certain criteria and are accounted for as investment properties.
IAS18	ASBE14	Customer loyalty programs: No specific requirement.	Customer loyalty programs: requires entities to account for award credits as a separately identifiable component of the sales transactions in which they are granted.
IAS19	ASBE9	Actuarial gains and losses: not allowed to recognize directly in equity. Limited on a defined benefit asset: do not contain such a requirement. Defined benefit plans: requires the recognition of a defined benefit liability and an expense throughout the expected service period of the related employees.	Actuarial gains and losses: Recognized immediately in profit or loss, recognized directly in equity or amortized over the expected average remaining working lives of employees using the corridor method. Limited on a defined benefit asset: in order for a surplus to be included as an asset, a company must either have an unconditional right to the refund or sufficient scope to reduce future contributions. Defined benefit plans: does not address the accounting requirements for defined benefit plans.

IAS20	ASBE16	<p>Non-monetary government grants: contain no specific requirements.</p> <p>Asset-related grants: allows both the presentation of asset-related grants as deferred income, and their recognition as income on a systematic and rational basis over the useful life of the asset or the deduction of the grant from the carrying amount of the asset.</p> <p>Biological asset-related grants: requires a conditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs to be recognized as income when the conditions attaching to the grant are met. An unconditional grant is recognized as income when it becomes receivable.</p>	<p>Non-monetary government grants: non-monetary government grants are recognized at fair value or at nominal amount.</p> <p>Asset-related grants: only allowed the presentation of asset-related grants as deferred income.</p> <p>Biological asset-related grants: does not provide specific requirements on grants related to biological assets.</p>
IAS21	ASBE19	<p>Presentation currency: allows a reporting entity to present its financial statements in any currency.</p> <p>Cumulative amount of the exchange differences deferred in a separate component of equity relating to a disposed foreign operation: recognition in profit or loss is only recommended. Under the alternative allowed it may be transferred directly to other reserves.</p>	<p>Presentation currency: ASBE 19 is silent on this issue. However, all PRC enterprises are required to present financial statements in RMB according to PRC laws and regulations.</p> <p>Cumulative amount of the exchange differences deferred in a separate component of equity relating to a disposed foreign operation: shall be recognized in profit or loss when the gain or loss on disposal is recognized.</p>
IAS23	ASBE17	<p>Capitalize or expense: borrowing costs are either expensed as incurred or capitalized provided the capitalization criteria are met.</p> <p>Finance charges in respect of finance leases: borrowing costs include finance charges in respect of finance leases.</p> <p>Borrowing costs that relate to assets that take a substantial period of time to get ready for</p>	<p>Capitalize or expense: requires the capitalization approach when the capitalization criteria are satisfied.</p> <p>Finance charges in respect of finance leases: does not deal with finance charges in respect of finance leases which are dealt with under ASBE 21.</p> <p>Borrowing costs that relate to assets that take</p>

		use or sale: capitalization is an available accounting policy choice.	a substantial period of time to get ready for use or sale: capitalization is mandatory.
IAS24	ASBE36	State-controlled entities: state-controlled entities are not exempted under IAS 24. Two parties subject to joint control or significant influence from the same party: They are not clearly defined as related parties under IAS24.	State-controlled entities: acknowledges state-controlled entities are not regarded as related parties simply because they are state-controlled. Two parties subject to joint control or significant influence from the same party: They are clearly defined as related parties under ASBE 36.
IAS26	ASBE10	Defined benefit retirement plans: applies to all retirement benefit plans and prescribe the accounting and reporting by defined contribution plans and defined benefit plans.	Defined benefit retirement plans: does not deal with the accounting by defined benefit plans because they are not allowed under the existing PRC rules.
IAS27	ASBE33	Reporting period: When the reporting dates of the parent and a subsidiary are different, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so. In any case, the difference between the reporting data of the subsidiary and that of the parent shall be no more than three months. Jointly controlled entities: a venturer may choose the equity method or proportionate consolidation method to account for its interest in a jointly controlled entity. Consolidation exemption for small-sized groups: consolidation is not required for small-sized groups.	Reporting period: ASBE 33 requires reporting periods of the parent and the subsidiaries to be the same. Jointly controlled entities: only allows the use of the equity method. Consolidation exemption for small-sized groups: no exemption.

IAS28	ASBE2	<p>Jointly controlled operation/assets: The recognition is based on the investor's share of the fair value of the net identifiable assets of the associate. Any goodwill should be separately recognized and disclosed as an intangible asset. Goodwill is accounted for in accordance with goodwill relating to subsidiaries.</p> <p>Associates held by venture capital organizations, investment funds, unit trusts and similar entities:</p> <p>There is no exemption for venture capitalists and similar entities.</p>	<p>Jointly controlled operation/assets: does not address the accounting treatment for jointly controlled operation/assets.</p> <p>Associates held by venture capital organizations, investment funds, unit trusts and similar entities: No requirement to apply equity accounting provided that upon initial recognition such investments are designated upon initial recognition as "at fair value through profit or loss". Such investments shall be measured at fair value in accordance with ASBE12, with changes in fair value recognized in profit or loss in the period of change.</p>
IAS29	ASBE	<p>IAS 29 applies to the financial statements of any entity whose functional currency is the currency of a hyperinflationary economy. In this case, whether the financial statements are based on a historical cost approach or a current cost approach, they shall be stated in terms of the measuring unit current at the balance sheet date.</p>	<p>Since China is not a hyperinflationary economy, there is no ASBE equivalent of IAS 29. However, ASBE 19 prescribes the translation requirements of financial statements of a foreign operation which is operating in a hyperinflationary economy.</p>
IAS31	ASBE2	<p>Joint venture: proportionate consolidation permitted in the consolidated financial statements, if this satisfies the required true and fair view. Otherwise the equity method shall be used.</p>	<p>Joint venture: In its consolidated financial statements, a venture shall report its interest in a jointly controlled entity using proportionate consolidation. The equity method is allowed as an alternative treatment.</p>
IAS32	ASBE37	<p>Classification as equity or liability: In the consolidated financial statements the classification of financial instruments by issuers is based on the economic substance of a financial instrument, with some exceptions. In the company financial</p>	<p>Classification as equity or liability: In the consolidated financial statements, individual and separate financial statements an instrument is classified as a liability if the issuer could be obliged to settle in cash or another financial instrument.</p>

		statements the classification of financial instruments by the issuer is based on the legal form of an instrument instead of the economic substance of a financial instrument. Financial instrument that contains both a liability and an equity element: The issuer may, but is not required to, classify the instrument's components separately in accordance with the substance of the contractual arrangement on initial recognition and the definitions of a financial liability and an equity instrument. Preference shares: preference shares that bear contingent dividends are classified as equity.	Financial instrument that contains both a liability and an equity element: The issuer shall classify the instrument's component parts separately in accordance with the substance of the contractual arrangement on initial recognition and the definitions of a financial liability and an equity instrument. Preference shares: preference shares that bear contingent dividends shall be classified as a liability, because the payment of dividend cannot be avoided indefinitely.
IAS33	ASBE34	Numerator: requires disclosure of the basic and diluted EPS amounts for profit or loss from continuing operations and those for discontinued operations.	Numerator: only requires the calculation of EPS based on net profit or loss for the current period.
IAS34	ASBE32	Components of an interim financial report: requires a statement of changes in equity to be presented. It allows the presentation of condensed income statement, condensed balance sheet, condensed statement of changes in equity and condensed cash flow statement.	Components of an interim financial report: does not require a statement of changes in equity to be presented. ASBE 32 requires the interim balance sheet, interim income statement and interim cash flow statements to be complete statements, i.e. the form and content shall conform to the annual financial statements.

IAS36	ASBE8	Reversal of impairment losses - Only prohibits the reversal of impairment loss for goodwill. There are some exceptions: it required if the impairment was due to a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event. Prohibited in all other situations.	Reversal of impairment losses - ASBE 8 prohibits the reversal of all impairment losses.
IAS37	ASBE13	Cost of major maintenance: allowed to systematically recognize a provision over the interval period of the maintenance projects. Provision for reorganization: allowed to recognize if the reorganization was started or announced after the balance sheet date but before the date of issue, if certain conditions have been met. Measurement of provisions: may be measured at present value or nominal value. Accrued interest : additions to the provision due to accrued interest should be presented either as interest expenses or as part of the related expense in profit or loss.	Cost of major maintenance: should be capitalized as a component of the asset if recognition criteria are met. Otherwise the cost should be recognized directly in profit and loss. Provision for reorganization: should only be recognized if the reorganization was started or announced prior to the balance sheet date. Measurement of provisions: where the effect of the time value of money is material, the amount of a provision should be the present value. If the effect is not material, the use of the nominal value is allowed. Accrued interest : where discounting is used, the carrying amount of a provision increases in each period with the accrued interest, to reflect the passage of time. This increase is recognized as borrowing cost in profit or loss.

IAS38	ASBE6	<p>Revaluation: allows both the cost model and the revaluation model (where fair value can be determined by reference to a price quoted in an active market).</p> <p>Useful life: Useful life of an intangible asset is always finite.</p> <p>Intangibles with indefinite useful life: Intangible assets shall be amortised consistently, based on the expected useful life. There is a rebuttable presumption that the useful life of an intangible fixed asset does not exceed twenty years.</p> <p>Impairment testing: Intangible assets with a useful life exceeding 20 years and intangible assets not yet taken into use are subject to an annual impairment test.</p>	<p>Revaluation: ASBE 6 only allows the cost model.</p> <p>Useful life: required to regard an intangible asset as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.</p> <p>Intangibles with indefinite useful life: Shall not be amortised. The useful life of such an intangible shall be reviewed each reporting period.</p> <p>Impairment testing: intangible assets with an indefinite useful life are subject to an annual impairment test.</p>
IAS39	ASBE12	<p>The principles of derecognition of debt are covered.</p> <p>Categories of financial assets: Financial assets must be classified into one of five categories: trading portfolio, derivatives, acquired loans and bonds, loans and other receivables and investment in equity instruments.</p> <p>Categories of financial liabilities: financial liabilities must be classified into one of three categories: trading portfolio, derivatives and other financial liabilities.</p> <p>Effective interest method: Linear amortisation is allowed if that does not lead to major differences with application of</p>	<p>The principles of derecognition of debts are not covered in ASBE 12.</p> <p>Categories of financial assets: financial assets must be classified into one of four categories: at fair value through profit or loss, loans and receivables, held-to-maturity or available for sale.</p> <p>Categories of financial liabilities: financial liabilities must be classified into one of two categories: fair value through profit or loss or other liabilities.</p> <p>Effective interest method: application of effective interest method is required.</p>

		effective interest method.	
IAS40	ASBE3	<p>Scope: also includes land held for undetermined use and certain property interests under an operating lease provided that certain criteria are met.</p> <p>Measurement: with certain specific exceptions, an enterprise shall adopt the same accounting policy for all its investment properties.</p> <p>Land use rights: an enterprise may classify land use rights held for rental purposes as an investment property provided the fair value model is adopted.</p> <p>Fair value changes of investment property measured at fair value: Shall be recognized in profit or loss. However, a revaluation reserve shall be recognized for the difference between cost and the fair value until the fair value is realized.</p>	<p>Scope: does not include land held for undetermined use and certain property interests under an operating lease provided that certain criteria are met.</p> <p>Measurement: ASBE 3 does not have the same requirement.</p> <p>Land use rights: ASBE 3 allows land use rights held for rental purposes to be classified as investment property using the cost model or the fair value model (provided the fair value can be reliably determinable on a continuing basis).</p> <p>Fair value changes of investment property measured at fair value: shall be recognized in profit or loss. A revaluation reserve shall not be recognized.</p>
IAS41	ASBE5	<p>Agriculture Specific requirements for the following when they relate to agricultural activity: No specific requirements for agricultural activity.</p> <p>Measurement: the fair value model shall be adopted for all biological assets, unless the estimate of fair value is clearly unreliable.</p>	<p>Agriculture Specific requirements for the following when they relate to agricultural activity:</p> <ul style="list-style-type: none"> • biological assets; and • agricultural produce at the point of harvest. <p>Measurement: under ASBE 5, the cost model shall be used to measure biological assets unless there is evidence that the fair value of biological assets can be reliably obtainable on a continuing basis.</p>