



# CULTURAL DIMENSIONS IN ACCOUNTING SYSTEMS

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## Abstract

*Many studies have shown that accounting systems have their own specificity in each country. Thereby the research focused mainly on the influence of environmental factors, cultural ones not being often into consideration. In this paper we aim to highlight the relationship between cultural characteristics and accounting systems relying on research and studies to date. Reviewing international accounting literature, we can say that there is no comprehensive theory to explain differences in the pattern of reporting and accounting practices in each country.*

**Keyword:** intercultural influences, accounting systems, international accounting.

**JEL Classification:** M16, M40.

## I. Introduction

Research conducted in the accounting system revealed the existence of a important influence of environmental factors on accounting development (Mueller, 1967; Zeff, 1971, Radebaugh, 1975; Choi, Mueller, 1984; Nobes, Parker, 1985). They have contributed to the realization that the specificity of these systems is attributed to environmental differences, which in turn have a significant impact on international accounting harmonization and in economic integration. In this context, it was suggested

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that the identification of a model can be useful for a better understanding of the possible turns that can occur, depending on the environmental changes.

Studies in this area have tried to elaborate a classification of accounting systems in terms of two directions. Thus, according to deductive approach were identified the most relevant environmental factors that connected to national accounting practices led to the construction of possible models for a possible classification of accounting systems internationally (Mueller, 1967, 1968, Nobes, 1983, 1984). In turn, inductive approach analyzed country-specific accounting practices and proposed different interpretations depending on the variety of economic, social, political and cultural factors identified (Frank, 1979; Nair & Frank, 1980).

Referring to the inductive method of classification of these systems, the analysis made by Mueller is a realistic starting point. In this respect, Mueller identified four possible approaches to the development of these systems in the modern countries with a market economy:

1. macroeconomic model - accounting system is closely linked to national economic policies;
2. microeconomic model - accounting is assessed as part of a business;
3. independent approach to discipline – in which accounting is seen as a function derived from business practice;
4. uniform accounting approach - accounting is the expression of a effective mean to manage and control.

While all these approaches have treated general economic factors, a wider set of influences: legal system, political system, social climate, was considered more relevant, however with no important significance for the development of accounting (Choi & Mueller, 1984).

Mueller's analysis has been adapted and extended by Nobes (1983, 1984) who based his classification on evolutionary approach to identify accounting practices in developed countries. Nobes developed a hierarchical scheme to distinguish the influence factors existing in accounting systems. However, as in the case of Mueller, he made no explicit reference to cultural factors.

In contrast, inductive approach aimed at identifying existing models in analyzing accounting practices. The most relevant study by Nair and Frank (1980) contained a statistical analysis of these practices from 44 states. Results, in line with those of



PriceWaterhouse consulting company (1975), showed that there are five possible models where analyzed states can be assigned, given the characteristics of accounting practices.

In addition to identifying and grouping states analyzed, Nair and Frank tried to trace the relationship of each model depending on a number of specific variables. Among these was included the language, as part of national culture. However, the assumption that language explains some peculiarities of accounting practices was not true. Thereby we can notice that research conducted in this period failed to trace a general relationship between cultural factors and accounting models.

### **I.1. The cultural dimension**

The influence of culture on behavior and social systems has been recognized and explored by a wide range of researchers, especially by anthropologists, sociologists and psychologists (Parsons, Shils, 1951; Kluckhohn, Strodtbeck, 1961, Douglas, 1977, Hofstede, 1980). Culture has been defined as “the collective programming of the mind which distinguishes the members of one human group from another”. (Hofstede, 1983). The term "culture" is reserved for companies viewed as a whole, for nations, while the "subculture" refers to the level of an organization, profession or family.

Hofstede's research focused on detecting structural elements of culture and especially those who had the biggest effect on organizations and institutions. In the largest study on several national cultures, psychologists have collected data on the "values" of a series of employees within multinational companies located in more than fifty countries. Statistical analysis of the data collected revealed four dimensions which could differentiate the states. These are: individualism, power distance, uncertainty avoidance and masculinity. These dimensions were assessed as elements of a common structure of cultural systems. Also, states participating in the study could be grouped into cultural areas or sectors based on the score obtained in the size above.

Individualism versus collectivism - refers to the extent to which a culture encourages independence and freedom of the individual to the group to which it belongs.

Distance versus low power distance - reflects the degree to which people perceive social inequality.

Safety versus uncertainty avoidance - is related to the ease with which culture handles new and take risks, the anxiety of that nation.



Masculinity versus femininity - the importance of being born male or female, preference for competitiveness and promote detrimental to cooperation and harmony or vice versa.

## **II. Cultural influences and accounting systems**

In accounting literature, the importance of culture and its historical origins are in an early stage of recognition. In this respect Harrison and McKinnon (1986) have proposed a methodological framework in which culture was built with the purpose of analyzing identified changes in national accounting and on the existing accounting practices. They consider regulating financial reporting a social system, characterized by norms and values determined culturally. (Ristea, 2006) Culture is a key element of this framework, on which depends: (1) understanding changes in the rules and accounting systems, (2) the behavior of groups in interaction with others.

Complementing the study of Harrison and McKinnon, Gray (1988) proposes a methodological framework in which culture can be used to explain international differences in accounting systems and possible models in harmonizing international accounting. Furthermore, Gray aims to explore the extent to which cultural influences identified by Hofstede can explain international differences in accounting systems.

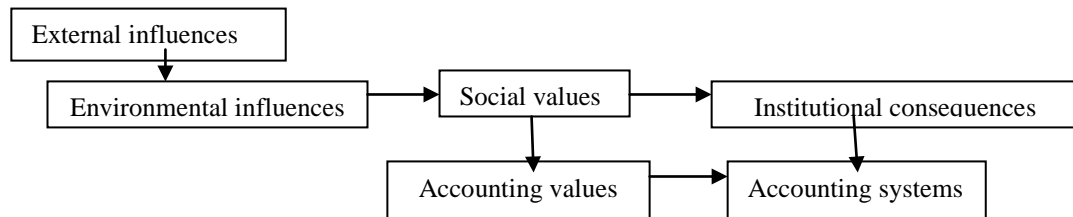
As a starting point, Gray's study is rooted in Hofstede's approach: if the values and culture are related to the development of accounting systems at subcultural level (organizations), there must be a close link between national culture and developing different accounting systems internationally. To explore connection cultural - accounting systems in an international context is necessary to identify the mechanism by which these values in society are related to organizational values of subculture accounting and the degree to which they directly affect the development of models of accounting practices.

The model proposed by Gray is an adaptation and extension of Hofstede model, the social values are determined by environmental influences, in turn modified by external factors such as: investment, international trade etc.. Instead, social values determine legislative and institutional changes on issues such as: the legal system, political system, professional associations etc. The model extension proposes social that are the expression of accounting values at subculture level. Thus, the system of values and attitudes of accountants is supposed to be bound and derived from the social system, especially work-



related values. Therefore, the values of accountants will have a significant impact on accounting systems.

A graphical representation of this model is shown in fig. 1.



**Figure no. 1. Gray's model**

Source: Gray, S.J. (1988), *Towards a theory of cultural influence on the development of accounting systems internationally*, Abacus, Vol 24, No 2, pp. 1-15

Being defined social values is possible to identify the corresponding values in the accounting subculture? A series of values, treated by literature and accounting practice, can be considered:

- Professionalism versus state control - this value reflects a preference for professional reasons and rules imposed by the profession, unlike legal regulations and monitoring conducted by state institutions.
- Uniformity versus flexibility - this value refers to the preference for common accounting practices in companies, unlike flexibility according to the circumstances of each company.
- Conservatism versus optimism - cautious preference to deal with unforeseen events, in contrast to a more optimistic, permissive view, which involves more risks.
- Secret versus transparent - Privacy preference for financial information to be disclosed to a limited number of interested users, in contrast to the transparent approach, the same information is disseminated to a wide range of users.

The link between Hofstede's study and research of Gray can be summarized as follows:



1) Professionalism is strongly related to a high degree of individualism, given the reliance on individual judgment of accountant and "disgust" for control law, while uncertainty avoidance is low, given the unavoidable acceptance of variety in their professional judgment. More like a touch, professionalism is related to masculinity and low power distance, taking into account the need for mutual trust within the accounting profession.

2) Uniformity is particularly correlated to strong uncertainty avoidance and a low degree of individualism. Uniformity is also aligned with high power distance, where the imposition of rules is more easily accepted.

3) Conservatism is linked specifically with strong uncertainty avoidance. There is also a link between a low individualism and high masculinity.

4) The secret is closely linked to a strong uncertainty avoidance and high power distance.

Doupnik and Salter (1995) have analyzed four cultural dimensions identified by Hofstede adding other six factors to explain differences in national accounting. Factors included in the study were:

- legal system;
- relationship between business enterprises and capital providers;
- tax laws;
- inflation levels;
- education levels;
- economic development.

Then they analyzed accounting practices from 50 countries and subsidiaries of the same multinational in different countries. The factors with the greatest explanatory power for the analyzed states were:

- legal system;
- inflation;
- uncertainty avoidance;
- masculinity;
- market capitalization;
- level of economic development.



The study suggests that in order to fully explain the individual character of an accounting system, we must take into consideration both environmental factors and cultural dimensions.

In table 1 we summarized the relationship between Gray's study (1988) and that of Gray and Vint (1995).

**Table no. 1 - Comparison between Gray's research (1988) and Gray and Vint research (1995)**

	Connection with a high level of secrecy (Gray; 1988)	Connection with a high level of secrecy (Gray, Vint; 1995)
Individualism	Low	<u>Low</u>
Power distance	<u>High</u>	<u>High</u>
Uncertainty avoidance	<u>Strong</u>	Strong?
Masculinity	Low	High?

Source: Gray, S.J. (1988), *Towards a theory of cultural influence on the development of accounting systems internationally*, Abacus, Vol 24, No 2, pp. 1-15; Gray, S.J., Vint H.M. (1995), *The impact of culture on accounting disclosures. Some international evidence*, Asia Pacific Journal of Accounting, December, pp. 33-44

\* - Strong links are underlined

\* - Weak bonds are indicated by question

Gray and Vint (1995) used a survey of advertising practices to evaluate the relative position of 27 countries in terms of the spectrum of open disclosure of financial information, with the U.S. having the open system and Uruguay as the most secret country regarding disclosure of accounting information. They established a significant relationship between index of uncertainty avoidance, the level of individualism and the degree of secrecy.

Pourjalali and Meek (1995) analyzed the changing cultural values in Iran after the revolution in 1979. They argued that the four changes in cultural variables were:



- low individualism because of collective force of the revolution and the impact of war;
- high power distance, with inflation rising because of economic disparities and the war that led to a hierarchy as possible;
- strong uncertainty avoidance index, inflation and crisis response;
- high masculinity arising from Islamization.

They then observed four trends in accounting culture of Iran after the revolution:

- low professional power and a high level of statutory control;
- high uniformity;
- high conservatism;
- high secrecy level of financial information.

Then they made a comparison of cultural change identified with the ones that would be expected on the basis of proposals presented by Gray (1988). From the study we can draw the following conclusions:

1) Relations of individualism, power distance and uncertainty avoidance are consistent with Gray's proposals. Two of masculinity relationships are not, but may be offset by the other three dimensions.

2) The observations are consistent for all proposed relationships highlighted by Gray.

A synthesis of the results obtained Pourjalali and Meek (1995) is presented in table. 2.

**Table no. 2 - Summary of observed changes in carrying amounts**

	Low professional power	High uniformity	High conservatism	High level secrecy
Low individualism	Yes	Yes	Yes	Yes
High power distance	Yes	Yes	Unknown	Yes
High uncertainty avoidance	Yes	Yes	Yes	Yes
High masculinity	No	Unknown	Yes	No

Source: Pourjalali, Meek G. (1995), *Accounting and Culture: The case of Iran*, Research in Accounting in Emerging Economies, Vol 3, pp. 3-17





### III. Conclusion

Et has saepe nonumy impedit. Pri et fabulas eleifend, an posse exerci commune ius, facilis iracundia mnesarchum vim an. In pri doctus dolorum constituam, his an tale summo. Eius animal nec at, feugiat perpetua cum ex. Et has saepe nonumy impedit. Pri et fabulas eleifend, an posse exerci commune ius, facilis iracundia mnesarchum vim an. In pri doctus dolorum constituam, his an tale summo.

A summary of the studies is presented in table no. 3. Together, they represent a substantial body of evidence both in support of Hofstede's study and the approach proposed by Gray on the links between cultural variables and accounting systems.

**Table no. 3 – Significant cultural variables in explaining differences in the accounting systems**

	Individualism	Power distance	Uncertainty avoidance	Masculinity
Doupnik și Salter			Ü	Ü
Gray și Vint	Ü		Ü	
Pourjalali și Meek	Ü	Ü	Ü	
Mac Arthur	Ü	Ü		

Source: synthesis of studies conducted by Hofstede, Gray, Doupnik & Salter, Gray & Vint, Pourjalali & Meek, Mac Arthur.

Of the four cultural dimensions proposed by Hofstede dimensions we see that masculinity is identified the least significant in all research activities.

As we have seen in studies conducted over time by various authors, identifiable connections between cultural dimensions and accounting systems can be summarized as follows:

- Professionalism and statutory control – in Gray's vision there's a strong link between the cultural dimension and individualism. In the accounting profession is manifested in recommendations to regulations, generally accepted practices. Unlike management, this link is not manifested by a high level of originality or innovation but by the powerful influence of the profession on accounting rules.



- Conservatism and optimism - uncertainty avoidance involves a high degree of conservatism in the sense that the estimates made to be as pessimistic in order to reduce future risks and unexpected losses.

From this perspective, in our opinion, two of generally accepted accounting principles are in complete contradiction: going concern principle, that the economic entity will continue to operate under the same conditions in the future and the precautionary principle, which requires that the evaluation of property to be lowest, in order to avoid future loss contingencies.

Basically, accounting legislation requires professionals to be optimistic and pessimistic at the same time, translating these principles into practice not providing a true image on activity of economic entities.

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