

Grays framework is
an extension of
hofstedes societal
values



Culture is said to be an identifying mark of any group of persons. The impact of this identifying mark is felt in everything that is done in that environment such that it is reflected in their daily and operational activities. In explaining the impact of culture on activities, Hofstede (1980: 26) defined culture as the 'collective programming of mind that distinguishes the members of one group from another'. This distinguishing factor belies characteristics that are distinct to that particular group and can be found in all aspects of life. One aspect that is not left out is the field of accounting, the impact of culture is felt such it is reflected in the accounting practices of particular environments and it defines the systems that guide the practices done in that environment. This results in huge differences in international accounting practices even though the definition of accounting has one aim- to provide decision useful information to users and to give evidence of stewardship.

Outside the culture factor, other reasons have been put forth to explain the differences in accounting systems where they include legal, tax, financing system (Nobes, 2006), political ideology (Ezzamel et al, 2007). However, Gray argues that cultural values can better explain the differences in accounting system and he bases his argument on Hofstede's theory. Going by his argument, if cultural values as posited by Hofstede are reflected in societal activities, then there should be an existing relationship such that a close pattern that between these societal values and the accounting systems practiced in those environments can be identified. He puts forward four significant accounting concepts/values (professionalism, uniformity, conservatism and secrecy) that he links with Hofstede's societal value constructs (individualism, power distance, uncertainty avoidance and

masculinity/femininity). In other words, the accounting values as given by Gray can be seen as a connective point between Hofstede's societal values and accounting practices. In explaining these links, he put forward four hypotheses. This paper seeks to assess the validity of the accounting concepts as put forward by Gray, seeking to establish their relationships with Hofstede's societal constructs.

Gray's Theoretical Reasoning.

It is a well known fact that the strength of a building lies in its foundation, where the foundation is faulty, then the building itself cannot be said to be strong. Applying this fact to Gray's hypotheses means that the strength of his hypotheses lays on its basis which is the Hofstedian societal value constructs. Though Hofstede collected his data over the period of 1967 to 1973, giving him enough time to incorporate changes in what he terms societal values, it has undergone criticisms in research papers. These criticisms weaken in turn weaken Gray's accounting values. Some of these criticisms include the fact that the Hofstedian value framework is outdated and a weak basis on which to base the accounting values framework (Jones, 2007). In addition to this, there is the issue of measurability of the societal value constructs, the equation of national states with cultures, status of the observer, cultural homogeneity and political influences (Baskerville, 2003; Jones, 2007)

Based on the fact that Gray's framework is an extension of Hofstede's societal values, it can be said that the above criticisms apply to his accounting value theory as well, weakening the validity of his theory.

Patterned after Hofstede's two dimensional societal value constructs, Gray <https://assignbuster.com/grays-framework-is-an-extension-of-hofstedes-societal-values/>

put forward two dimensional accounting concepts as both ends of a continuum. He argues that a link exists between these concepts and each of Hofstede's societal values, where Hofstede's values are -Individualism vs Collectivism, Large power distance vs Small power distance, Strong vs Weak uncertainty avoidance and Masculinity vs femininity. The fundamental issues as regards these constructs are the degree of interdependence maintained in a society, human inequalities and relationships with authority, reaction to uncertainties and role differentiation of gender respectively. As an extension of these values, Gray puts forward these accounting values-Professionalism vs statutory control, Uniformity vs Flexibility, Conservatism vs Optimism and Secrecy vs Transparency where the fundamental issues in these concepts are individual judgements as opposed to statutory judgements, consistency in reporting standards as opposed to optioned standards, cautious measurements as opposed to optimistic measurements and a cautious approach to disclosure respectively.

Critique of Gray's Hypotheses

All of Gray's hypotheses imply that accounting values have a stationary nature as is also implied by Hofstede's societal values and just as Hofstede used nations to equate culture, Gray used countries as a basis for comparison, thereby generalizing as country based on accounting values that can be subject to change. Baskerville (2003) notes that the use of nation states as units for comparison is wrong, stating that this has been the case in international accounting research. A further analysis of Gray's hypotheses is given below to assess its validity.

Hypothesis One

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Gray hypothesized that the higher a country ranked in terms of individualism and the lower it ranked in terms of uncertainty avoidance and power distance then the more likely it is to rank highly in terms of professionalism. Though empirical studies carried out on this hypothesis have found support for it (Salter and Niswander, 1995 and Sudarwan and Fogarty, 1996), it can be argued that this hypothesis does not hold fully, especially when cognizance is given to the constant changes that occur even in these environments with distinguishable cultural values. In addition to this, empirical studies focused on the relationship that exist between the value construct picked out by Gray, but considering that the values given by Hofstede are two dimensional, it is also possible that the relationship posited by Gray to exist between professionalism and weak uncertainty avoidance can also exist between professionalism and strong uncertainty avoidance. This argument is based on the fact that the fundamental concept of uncertainty avoidance as given by Hofstede to be reaction to uncertainties and ambiguities. Strong uncertainty avoidance society's deal with uncertainties through the established and rigid rules and it can be argued that high levels of professionalism can be found in such societies. An example is Indonesia. Though the country is among the group classed as collectivist, strong uncertainty avoidant and large power distanced, Askary (2006) finds that Indonesia tops the list for professionalism in his study of developing countries. In the case of Germany, Heidhues and Patel (2011) finds that the Gray's proposed relationship between low uncertainty avoidance and high professionalism does not hold. This is because Germany is seen a medium uncertainty avoidant country but it scores high on professionalism. This means that Gray's accounting values and Hofstede's

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societal values can hold on some countries but not in some and this limits the generalizability of hypothesis one. In addition, going by the definition of professionalism which means independent judgement, the findings of Braun and Rodriguez (2008) does not support this hypothesis. Earnings management which requires independent judgement is meant to be related to professionalism but in their study, it is related to statutory control.

Hypothesis Two

The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism then the more likely it is to rank highly in terms of uniformity. Empirical studies on Gray's argument for this hypothesis are mixed in that not all the purported values given by Gray can be linked to uniformity. The issue of applicability limits this hypothesis. Gray defined uniformity as a preference for uniform accounting practices and countries in the western world are said to have a preference for flexible standards according to their perceived needs. However, the strength of this hypothesis is invalidated when the accounting standards used in the developed countries are considered. Though they are classed as countries that prefer flexible standards, the countries tend to use uniform standards in the name of enhancing their comparability. In addition to this, there is the issue of global reporting standards, which the UK and the US are founding members. The desire by both countries for a uniform accounting standards via global reporting standards reflects the weakness of the Hofstede-Gray framework. In line with this argument, Roberts and Salter (1999) test the relationships on the big 6 at that time and find that

uncertainty avoidance (reaction to ambiguities) is not positively related to <https://assignbuster.com/grays-framework-is-an-extension-of-hofstedes-societal-values/>

uniformity. The strength of any given hypothesis is in the positive relationships of all variables used in forming the hypothesis. Given that one of the relationships for this hypothesis does not hold, it can be argued that there are other values which result in uniformity of accounting practices. This means that not all of the relationships as hypothesized by Gray hold.

Gray states that both hypotheses are most relevant to the authority and enforcement, however, the definition of the terms limits the extent of relevance that can be established. Gray defines the accounting values as a preference and not an exact activity carried out by accountants (Baydoun and Willett, 1995; Heidhues and Patel, 2011). For example, professionalism is defined as a preference for individual professional judgement and how this preference relates to the exercise of authority is not clear. Who exercises the authority? How many authoritative sources are there? Given the fact that professionalism belies opinionated judgement, this could refer to a number of individuals.

Hypothesis Three

The higher a country ranks in terms of uncertainty avoidance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms of conservatism. Empirical studies support Gray's reasoning on this hypothesis (Salter and Niswander, 1995; Sudarwan and Fogarty, 1996, Doupnik and Ritcher, 2004) especially for the strong link but I would argue that the fact that a country dislikes ambiguous situations does not mean that it would be highly conservative, this is based on the fact that situations change and changing situations bring about a change in

accounting methods used. This is a fact that the Gray's framework does not take into consideration. In line with this argument, Arnold et al (2001) finds that an increase in uncertainty avoidance leads to an increase in materiality estimates. This supports the fact that changes in situations are incorporated into accounting activities and that a country that is highly conservative today would not necessarily be conservative the next day. Regarding the relationship between conservatism and individualism, masculinity and uncertainty avoidance, it can be argued that these relationships are also subject to change. Going by the definition of masculinity, a high desire for quality of life can also lead to flexibility in accounting standard. Along this line of thought, Sudarwan and Fogarty (1996) found no relationship between masculinity and conservatism. This means that the accounting value of conservatism as defined by Gray limits the extent of connection that can be made between the relationships. For example, the word cautious approach can be seen to be a little muddy. Is it possible for the level of cautiousness taken by accountants to be placed on a continuum such that the varying levels can be used to seek for a matching relationship between the variables?

Hypothesis Four

The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank in terms of secrecy. Empirical support for this hypothesis is inconclusive; Sudarwan and Fogarty (1996) find that the relationship between uncertainty avoidance and secrecy is negative and a non significant relationship between power distance and secrecy (Salter and <https://assignbuster.com/grays-framework-is-an-extension-of-hofstedes-societal-values/>

Niwander, 1995). This can be viewed as rendering the practicability of Gray's argument as quite unfit and therefore invalidates the hypothesis. The relationships as argued by Gray is vague and can be argued to have a different meaning.

Gray states that hypotheses three and four relate to measurement and disclosure. As noted in the first two hypotheses, the relationship between the conservatism and measurement or secrecy and disclosure remains unclear. Baydoun and Willett (1995) argue that the interpretation of this relationship is tenable owing to the fact that secrecy can be seen as a social characteristic and that its importance in determining accounting values is not evident. Other problems with Gray's theory include measuring the terms used in the hypotheses, the fact that it is applicable in some countries and not in others as well as the implied presence of other values in determining accounting practices (Baydoun and Willett, 1995; Dougnik and Tsakumis, 2004; Heidhues and Patel, 2011).

Applicability of Gray's Theory in the Use of IFRS

Gray's theory can be seen as a contribution to the literature on the harmonization of accounting and the essence of most literature in that line of research aim to help the easy adoption and increasing use of the international financial reporting standards. Furthermore, a lot of countries are adopting the international financial reporting standards (herein after referred to as IFRS) despite the differences in culture. The successful adoption and implementation of the IFRS in countries means that Gray's theory of cultural influences is outdated in that culture is no longer deemed to be a barrier to international accounting systems. However, to assess the <https://assignbuster.com/grays-framework-is-an-extension-of-hofstedes-societal-values/>

usefulness of Gray's theory in assisting with the increasing use of IFRS, Spain will be used to check the applicability of Gray's theory. Spain is a country whose accounting system is defined as that of a Continental European standard, this is as a result of the fact that its legal system is Roman law and that its accounting laws are embedded in its legislation. Going by Hofstede's classification, Spain has a medium individualist culture, medium power distance, low masculinity and high uncertainty avoidance. Using Gray's framework to classify their accounting systems places them as a country with more emphasis on uniformity, more emphasis on conservatism, less emphasis on professionalism and less emphasis on secrecy. Going by Gray's framework, one major problem with Spain's accounting systems is the preference for conservative measurements and reporting as opposed to the true and fair value methods of the IFRS. Moreover, the adoption of IFRS is meant to improve the quality of financial information, enhance comparability, and strengthen the integration and competitiveness of capital markets (Zeghal and Mhedhbi, 2006). Though the country has adopted IFRS, it has come across a few problems. Callao et al (2007) notes that the adoption of IFRS in Spain has not improved comparability of accounts, it has worsened it. They also find out relevance of financial information has not improved. This invalidates Gray's theory in that the cultural differences in accounting systems as identified by his framework, though logical, it seems to have been ignored by the International Accounting Standards Board. An application of Gray's hypotheses is tabulated for Spain to check its overall validity and practicability.

Societal/ Accounting Values

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Medium Individualism

Medium Power Distance

Low Masculinity

High Uncertainty Avoidance

Strength of the Hypotheses

Professionalism

ns

ns

—

Pos.

Weak

Uniformity

ns

ns

—

Pos.

Weak

Conservatism

ns

—

Pos

Pos

Semi- strong

Secrecy

ns

ns

Pos

Pos

Semi-strong

Where ns: no relationship and pos. : positive relationship

From this table, the practicability of Gray's theory is not strong. Hofstede's values make room for moderating along the continuum as can be seen from Spain been a medium individualist culture. Gray did make provision for countries like Spain who fall in the middle of the continuum. Splitting Gray's hypotheses into bits shows the weaknesses of his framework and implies an impracticability of the framework. This also implies that Gray's theory is country specific and as noted by Heidhues and Patel (2011), the values were constructed using the US and the UK as a base.

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Conclusion

The practicability of Gray's hypotheses has been argued above; the problems have been highlighted alongside the impact of the framework for the applicability of IFRS. As noted above, there is room for improvement if the theory is to be valid. In addition to this, Heidhues and Patel (2011) note that Gray's framework was accepted in the academic world without criticism and they point to the fact that this might be as a result of his being seen as one of the leading international accounting researchers. The impact of changes was not incorporated into the framework and this is very important considering that societal dynamism is constant. This alone reduces the reasonability behind Gray's framework.