

The influence of culture on accounting



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Introduction

Many studies have demonstrated that culture diversity had influenced accounting practice within national and international borders. Accounting can therefore be said to have been influenced by its environment, which includes the culture of the country in which it is being operated (Nobes & Parker, 2008)

Mueller et al. (1994), cited in Alexander. et al, also stipulate that each accounting system is a product of its specific culture and environment, and that different patterns of accounting are associated with a range of cultural factors such as societal values, religion, political systems and historical values. It is however no thought that those countries with same or similar cultural values or background are practicing accounting similarly.

The purpose of this paper is to critically examine the extent to which these cultural values influence the practice of accounting and how the understanding of the role of culture in accounting can help us understand international accounting standards. The work of Hofstede's cultural value differences and Gray's accounting values will be the major focal point of this paper. The relationship that exists between cultural values, accounting values and financial reporting will be examined as well.

Key words: Cultural values; Accounting Values; Financial Reporting

DIFFERENCES IN CULTURAL VALUES

Culture is a way of life of a group of people, which includes the behaviours, beliefs, values, and symbols that they accept, generally without thinking

about them, and that are passed along by communication and imitation from one generation to the next. The position that the ideas, meanings, beliefs and values people learn as members of society determine human nature.

To support this definition, Hofstede, one of the greatest researchers of culture differences, defined culture as the collective programming of the mind which distinguishes members of one human group from another,(cited in Nobes & parker 2008. p 25)

For the purpose of comparability, this paper will base its analysis on Hofstede's work on cultural value difference and gray's work on accounting values to see their impact on accounting practice and reporting. (Hofstede, 1984 p. 83, 84) defined and summarized four Cultural dimensions as, individualism and Collectivism, Large versus small power distance, Strong versus weak uncertainty avoidance, masculinity versus femininity. He also stipulates that there exist specific relationship in these cultural dimensions.

Individualism versus collectivism is how in a society one group will prefer a much closed family system while the other group prefer belonging to an expanded family system. This cultural dimension looks at how society handles interdependence among individuals.

The second cultural dimension, large versus small power distance seeks to divide a society between those few powerful groups of people who prefer power to be distributed unequally through institutions and organizations and those who feel that power should be distributed equally. This dimension addressed how a society handles inequalities amongst a people when they occur.

The third cultural dimension by Hofstede, is the strong versus weak uncertainty avoidance which is, the extent to which members of a society feel uncomfortable with uncertainty and ambiguity . This feelings leads them to believing in promising certainty and to maintain institutions protecting conformity. He explained that a society with strong uncertainty avoidance maintained rigid codes of belief and behaviour and are intolerant of deviant people and ideas. The weak uncertainty maintain a more relaxed atmosphere in which practice counts more than principles and deviance is more tolerated.

Masculinity and femininity, which is the last but not the least of the four cultural dimensions, describes masculinity as the preference, in a Society for achievements, heroism, assertiveness, and material success. Femininity on the other hand was said to represent a society where preference for relationships, modesty, caring for the weak and the quality of life is high.

ACCOUNTING VALUES AND CULTURAL VALUES

It is based on these Hofstede's classification of cultural dimensional differences that Gray (1988) also proposed a connection between those cultural dimensions and accounting values by specifically identifying four accounting values which includes; professionalism(implies self-regulation by the accounting profession itself) versus statutory (implies control by the government), uniformity (adherence to consistency and detailed regulations) versus flexibility (implies able to amend or adjust to suite a situation), conservatism (implies the tendency to under state profit and assets) versus optimism and secrecy (implies a preference for confidentiality) versus transparency (implies disclosure of true state of affairs). The first two relates

to authority and enforcement of accounting practice at a country level while the second two relates to the measurement and disclosure of accounting information at a country level as (cited in Nobes and Parker, 2008).

Gray's accounting values and Hofstede's cultural difference can be group into two categories. This paper will like to refer to these two groups as " the collectivism category" and " the individualism category". The individualism category is made up of Professionalism, flexibility, transparency, optimism, individualism, small power distance, weak uncertainty avoidance and femininity. This category has the characteristic of self-reliance or self-interest and therefore in a society where individualism, small power distance, weak uncertainty and femininity dominate, accounting practice and financial reporting is likely to be professional, flexible, transparent and optimistic. Secondly the individual's quest for information to make decision on investments to satisfy his/her personal needs will prefer detailed report of a financial statement. This paper will like to associate this category to that of a capitalist society where the accounting regulations are not part of the common law but rather are in the hands of professional organisations of the private sector as stipulated in Alexander et al. (2009 p. 28). For instance in the UK, accounting laws and regulations are control by professional bodies such as the ACCA, CA, CIMA, and IASB. It can again be said that countries that practice the common law are also likely to practice accounting the same way. They are considered to be capitalism countries since they raises funds from the capital. They include, United Kingdom, Ireland Canada, Australia and the United States of America

The second category of Hofstede cultural value difference and that of Gray's accounting values "The collectivism category" is made up of collectivism, large power distance, strong uncertainty avoidance masculinity and Gray's accounting values of statutory control, uniformity, conservatism and secrecy. This category has the characteristics of being control from a common source or being centrally planned. Countries or societies found to be dominant with these cultural and accounting values are more likely to practice accounting in the same way. The practice of accounting in this society or country is control by statutory institutions with detailed rules and regulations. The practice of accounting and reporting in these societies or countries will be geared towards the dictates of those in power or in control. No detailed accounting is required and secrecy and conservatism dominates in the financial reporting (Kosmala-Maclulich, 2003). Here again this paper will associate this category of a society or a country to that of a socialist country where accounting laws and regulations are enshrined in the coded laws of the country. Governments in these countries use financial reports for their own purpose.

The Democratic Republic of Germany adopted the Soviet Union's socialist ideologies after the Second World War. This adaptation included a methodological guidance in designing accounting information systems (Berry, 1982: 1890). Bailey (1990) also stipulates that the Marxism Theoreticians view the western-style accounting as an instrument for the exploitation of workers by the capitalists, accounting and financial reporting was therefore geared towards the dictates of those in authority. Young and David (1999) argued that Accounting activities at the enterprise level were

focused exclusively on the preparation of reports required by the planning bureaucracy, and during this period, accounting was only seen as a primary source of information for the provision of financial statistics for the use in the preparation of budget; it was therefore a list of quantities instead of values. Accounting was more or less reduced to a clerical job; there was no professionalism in the practice. Judgement of reports (true and fair) was not entertained; standardisation was non-existence and so was the concept of profit, in short accounting standards and procedures were not in existence.

Accounting in China

Another country worth looking at is china which has a long history of cultural value which is characterise with collectivism, high in power distance, strong uncertainty avoidance and femininity. The Chinese will not mind sacrificing himself for the good collectivism or country (Yao F. 2007).

The practice of accounting and reporting is control by the state under the auspices of the ministry of finance and the aim of this control is to gear the practice towards the general benefit of the planned economy. The user of accounting information is mainly the government, because most enterprises in china are owed by the state. The few individual who try to do some investments do not know much about accounting and finance. (Yao F. 2007). Although the state had accounting standards for Business Enterprises, they were just mere basic rules which were issued in conjunction with basic standards, as argued by Lin et al. (2001). There where however restrictions on some important accounting principles such as making provision for bad debts and obsolete inventories, recognition of impairments of assets, disclosure of financial information and many more. Secrecy and

conservatism was dominant in financial reporting. Professionalism, transparency and flexibility were non-existence. Accounting profession was reduced to a very low status.

The dynamics of cultural values brought about a change in financial reporting by these countries with strong cultural values. As a result of the world becoming a small village and the growing of Multinational companies across the world, there is the need for comparability of financial Reports since its purpose is to help investors make informed and sound decisions. Based on the fact that the world is becoming a small place and countries need each other for their survival, most of the socialists' countries like the East Germany, Portugal, Poland, Italy, and France have all adopted the capitalism system of financial reporting. The Chinese government, also have realise the need for adopting the international financial reporting standard (IFRS) which is being champion by the International Accounting Standard Board (IASB), but yet it only talked about the convergence of the accounting standard and not a totally acceptance. (Yao F. 2001)

Conclusion

It is quite obvious that cultural values have influenced the practice and reporting of accounting and countries with similar cultural values practicing accounting similarly. With the world becoming a global village and the fast cultural changes across the world, the need for harmonization and convergence of accounting standards was given a serious consideration by centrally planned countries, but a country like China, although have made efforts to embrace international financial reporting system, is still holding on to some of its cultural accounting practices. This is an indication that so far

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as cultural values remain different, accounting practice will be affected and the only way out is the harmonization and convergence of accounting standards.