ACCOUNTING AND ENVIRONMENT

Reference

Think about these issues?

- What is meant by culture?
- What are the components of culture?
- Why should we consider culture when talking about accounting?
- What aspects of culture should we understand when talking about accounting?

DEFINITION

- Culture refers to “a set of common ideas, beliefs and values that shared by the member of a group of individuals” (Roberts et al., 2002)
- Culture is “the collective programming of the mind which distinguishes the members of one human group from another” (Hofstede 1984)
- So, what (terus piye jal)? CULTURE:
  - Collective
  - Not directly observable but can be inferred from behaviour
  - Helps differentiate groups
**LEVEL of CULTURE**

- *Level of Culture:*
  - *Symbols*—with particular meaning
  - *Heroes*—characters prized by society
  - *Rituals*—routine activities
  - *Values*—general beliefs or social norms

**SUBCULTURE**

- Culture exists at many levels (ethnic, religious, areas, etc)
- Each group will have its own culture

**Accounting as Subculture** (*Symbols, Heroes, Ritual, Values*)

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**Cultural Influences on Accounting Systems**

- Importance of Culture/Historical roots on accounting systems is increasingly being recognized
- Culture is considered an essential element in the understanding norms/values
- Culture/Societal values at nat’l level permeate organizational/occupational subcultures
- Accounting systems and practices can influence/reinforce values
Structural Elements of Culture

- Hofstede – 4 Underlying societal dimensions
  - Individualism
  - Power Distance
  - Uncertainty Avoidance
  - Masculinity
- Hofstede and Bond – 5th dimension
  - Short v. Longterm Orientation: Confucianism

Hofstede’s Societal Dimensions

- Individualism vs Collectivism
  - How a society views social relationship
  - People’s self-concept: “I” or “we”: U.S. v Europe?
- Large vs Small Power Distance
  - How a society handles power inequalities among people / organizations – distributed unequally.
    - Large power distance: accept hierarchical structure
    - Small power distance: strive for me equality
- Masculinity vs Femininity
  - How a society allocates social roles to (not biological) the sexes:
    - Masculinity: preference for achievement, heroism, assertiveness, material success
    - Femininity: preference for relationships, modesty, caring
Hofstede’s Societal Dimensions

- **Strong vs Weak Uncertainty Avoidance**
  - How a society feel comfortable with uncertainty and ambiguity
  - **Strong**: demand uniformity, intolerant of deviation
  - **Weak**: more relaxed, practice > principle, deviance from norm OK

- **Short v. Long–term Orientation: Confucion Dynamism**
  - **ST**: respect for tradition, social obligations regardless of cost / quick results
  - **LT**: adaptation of traditions to meet modern needs / thrifty sparing approach to resources

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### Classification

<table>
<thead>
<tr>
<th>Dimension</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Distance</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Uncertainty Avoidance</td>
<td>Weak</td>
<td>Weak</td>
<td>Strong</td>
<td>Strong</td>
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<tr>
<td>Organ. Type</td>
<td>Implicitly Structured</td>
<td>Personal Bureaucracy</td>
<td>Workflow Bureaucracy</td>
<td>Full Bureaucracy</td>
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<tr>
<td>Model of Organ.</td>
<td>Market</td>
<td>Family</td>
<td>Well Oil Machine</td>
<td>Pyramid</td>
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<tr>
<td>Countries</td>
<td>Anglo Saxon (USA, UK, Australia, NZ, Canada) Scandinavian</td>
<td>South East Asian</td>
<td>Germany Finland Israel</td>
<td>Latin Med. Islamic Japan</td>
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</table>
Accounting Values v. Societal Values – Gray

- **Professionalism versus statutory control**
  - Preference for individual professional judgment / self regulation
- **Uniformity versus flexibility**
  - Preference for enforcement of uniform practices
- **Conservatism versus optimism**
  - Preference for cautious approach / less risky approach to measurement.
- **Secrecy versus transparency**
  - Preference for confidentiality v. transparency

Professionalism versus Statutory Control

- Accountants are perceived to have independent attitudes throughout the world
- Public regulation or self regulation
  - U.K. – rely on judgment of accountant
  - France and Germany – implement detailed legal requirements
- Link to societal value dimensions – Professionalism
  - Individualism
  - Weak uncertainty avoidance
  - Small power distance
  - Masculinity
  - Short-term orientation
Uniformity versus Flexibility

- Uniform accounting plan and imposition of tax rules for measurement purposes
  - France and Spain
    - Facilitate national planning
    - Pursue macroeconomic goals
- Intertemporal consistency and some degree of intercompany comparability b/c of flexibility
  - U.S. and U.K.
- Link to societal value dimensions – Uniformity
  - Strong uncertainty avoidance
  - Collectivism
  - Large power distance

Authority and Enforcement

Conservatism versus Optimism

- Conservatism seen as a fundamental value
  - Strongly conservative
    - Japan, France, Germany, Switzerland
  - Less conservative
    - U.S., U.K., the Netherlands – though changing post Sarbanes Oxley
- Link to societal value dimensions – Conservatism
  - Strong uncertainty avoidance
  - Long-term orientation
  - Collectivism
  - Femininity
- Sarbanes Oxley – impact: authority enforcement / Measurement disclosure figures 2.5 / 2.6

Secrecy versus Transparency

- Stems from management and accountants
- Closely related to conservatism
  - Secrecy relates to disclosure
  - Conservatism relates to measurement
- Secrecy
  - High – Japan, France, Germany, Switzerland
  - Low – U.S. and U.K.
- Link to societal value dimensions – Secrecy
  - Strong uncertainty avoidance
  - High power distance
  - Collectivism
  - Femininity
Accounting Values and Societal Values

Figure 2.6 Accounting Systems: Measurement and Disclosure


CULTURAL DIMENSION & ACCOUNTING VALUES

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Relationship to accounting Values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Profess.</td>
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<tr>
<td>Individualism</td>
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<td>Uncertainty A.</td>
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<td>Power Dist.</td>
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<tr>
<td>Masc vs Fem.</td>
<td>NR</td>
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<tr>
<td>Accounting practice mainly</td>
<td>Authority</td>
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</tbody>
</table>
### Accounting Values and International Classification

- Accounting values most relevant to professional or statutory authority and enforcement
  - Professionalism and Uniformity
    - Both concerned with regulation and degree of enforcement or conformity
- Accounting values most relevant to measurement and disclosure
  - Conservatism and secrecy
- Country groupings
  - Optimistic and transparent
  - Conservative and secretive

#### Gray’s Accounting Values vs Cultural Dimensions affecting the country’s accounting values

<table>
<thead>
<tr>
<th>Gray’s Accounting Values</th>
<th>Cultural Dimensions affecting the country’s accounting values</th>
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<tbody>
<tr>
<td>Professionalism vs Statutory Control</td>
<td>Professionalism: Individualism, Weak uncertainty avoidance, Small power distance</td>
</tr>
<tr>
<td></td>
<td>Statutory Control: Collectivism, Strong uncertainty avoidance, Large power distance</td>
</tr>
<tr>
<td>Uniformity vs Flexibility</td>
<td>Uniformity: Strong uncertainty avoidance, Large power distance, Collectivism</td>
</tr>
<tr>
<td></td>
<td>Flexibility: Weak uncertainty avoidance, Low power distance, Individualism</td>
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International Pressures for Accounting Change

- Growing international interdependencies
- Harmonization of the regulatory framework internationally
- Centrally planned economies embraces market-oriented approach
  - Former U.S.S.R., Eastern Europe, China
- New opportunities for international investment, joint ventures, and alliances

Economic Groupings and International Organizations

- European Union
  - Promotes economic integration/harmonization
- UN
  - World Bank
  - International Monetary Fund
  - UN conference on Trade and Development
  - World Trade Organisation
- OECD
  - Foster international economic and social development in industrialized countries
    - “Code of Conduct” for MNEs
Impact of MNEs and Globalization

- Cultural and social
- Employment and consumption patterns
  - Significantly influenced
- Pressure for more accountability
- Environmental impact

Impact of MNEs and Globalization

- OECD, EU, IOSCO work for harmonization and internationalization of securities markets
- IASB and the International Federation of Accountants (IFAC)
  - Professional organizations involved in harmonization
- Adoption of International Financial Reporting Standards (IFRS)
SO WHAT?

- Accounting is a socially constructed reality?
- Accounting is influenced by culture, economic, politics, social forces and interest
- Accounting is not universal practice applicable anywhere
- Accounting should be developed based on unique characteristics of environment in which accounting take place