



ACCOUNTING AND ENVIRONMENT



Reference

- ▶ Radebaugh, L.H, Gray, S.J and Black, E.L, 2006, *International Accounting and Multinational Enterprises*, Wiley



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Think about these issues?

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- ▶ 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?



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DEFINITION

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- ▶ 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 ja!*)? CULTURE:
 - Collective
 - Not directly observable but can be inferred from behaviour
 - Helps differentiate groups



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LEVEL of CULTURE

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- ▶ **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 level (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

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- ▶ 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



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Structural Elements of Culture

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



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Hofstede's Societal Dimensions

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- ▶ **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
 - **Feminism**: preference for relationships, modesty, caring



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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



| Dimension | A | B | C | D |
|-----------------------|---|----------------------|------------------------|--------------------------|
| Power Distance | Low | High | Low | High |
| Uncertainty Avoidance | Weak | Weak | Strong | Strong |
| Organ. Type | Implicitly Structured | Personal Bureaucracy | Workflow Bureaucracy | Full Bureaucracy |
| Model of Organ. | Market | Family | Well Oil Machine | Pyramid |
| Countries | Anglo Saxon (USA, UK, Australia, NZ, Canada) Scandinavian | South East Asian | Germany Finland Israel | Latin Med. Islamic Japan |



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Accounting Values v. Societal Values – Gray

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- ▶ **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



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Professionalism versus Statutory Control

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- ▶ 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



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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

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Authority and Enforcement

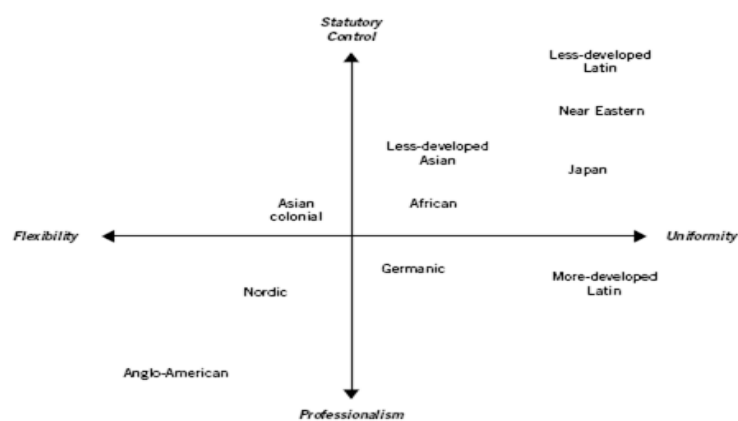


Figure 2.5 Accounting Systems: Authority and Enforcement

Source: S.J. Gray, "Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally," *Abacus* (March 1988): 12.

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Conservatism versus Optimism

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- ▶ 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



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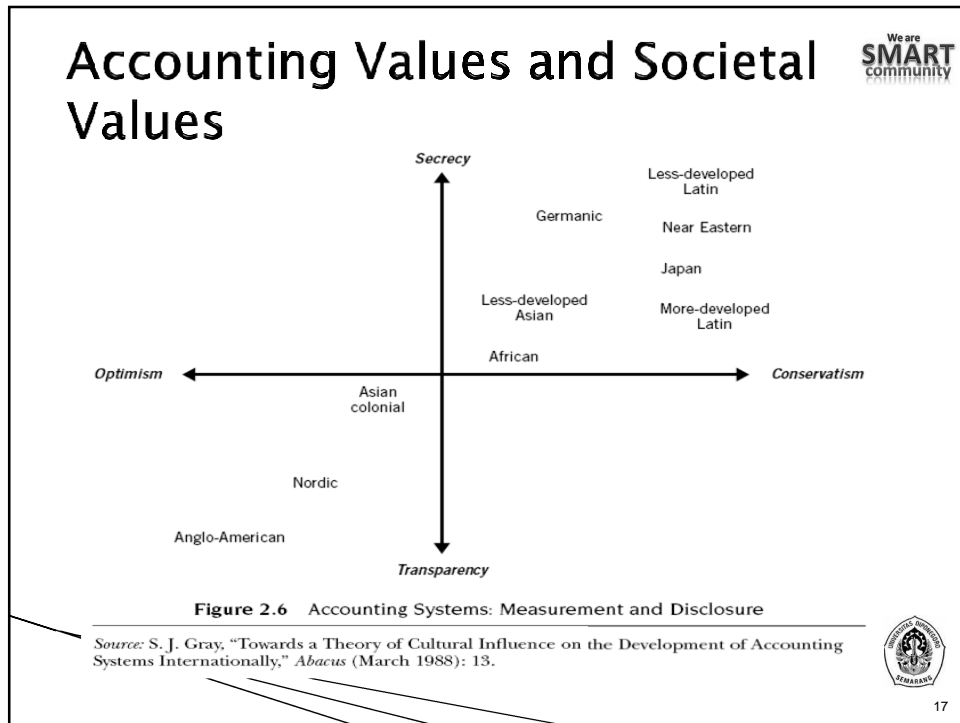
Secrecy versus Transparency

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- ▶ 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



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CULTURAL DIMENSION & ACCOUNTING VALUES

| Dimension | Relationship to accounting Values | | | |
|--|-----------------------------------|-------------|--------------|------------|
| | Profess. | Uniformity | Conservatism | Secrecy |
| Individualism | + | - | - | - |
| Uncertainty A. | - | + | + | + |
| Power Dist. | - | + | NR | + |
| Masc vs Fem. | NR | NR | + | + |
| Accounting practice mainly influenced | Authority | Application | Measurement | Disclosure |

| <i>Gray's Accounting Values</i> | <i>Cultural Dimensions affecting the country's accounting values</i> | |
|--------------------------------------|---|---|
| Professionalism vs Statutory Control | Professionalism ⇔ <ul style="list-style-type: none"> • Individualism • Weak uncertainty avoidance • Small power distance | Statutory Control ⇔: <ul style="list-style-type: none"> • collectivism • strong uncertainty avoidance • large power distance |
| Uniformity vs Flexibility | Uniformity ⇔: <ul style="list-style-type: none"> • Strong uncertainty avoidance • Large power distance • Collectivism | Flexibility ⇔: <ul style="list-style-type: none"> • weak uncertainty avoidance • low power distance • individualism |
| Conservatism vs Optimism | Conservatism ⇔: <ul style="list-style-type: none"> • Strong uncertainty avoidance • Collectivism • Feminism | Optimism ⇔ : <ul style="list-style-type: none"> • weak uncertainty avoidance • individualism • masculinity |
| Secrecy vs Transparency | Secrecy ⇔: <ul style="list-style-type: none"> • Strong uncertainty avoidance • Large power distance • Collectivism • Feminism | Transparency⇔: <ul style="list-style-type: none"> • weak uncertainty avoidance • low power distance • individualism • Masculinity |



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



International Pressures for Accounting Change

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- ▶ 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



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Economic Groupings and International Organizations

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- ▶ 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



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Impact of MNEs and Globalization

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



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Impact of MNEs and Globalization

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- ▶ 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)



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SO WHAT?

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- ▶ 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



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