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THE ROLE OF CULTURE IN ACCOUNTING IN THE LIGHT OF HOFSTEDE’S, GRAY’S AND SCHWARTZ’S CULTURAL DIMENSIONS: THEORIES – A LITERATURE REVIEW

KATARZYNA KOLESNIK

INTRODUCTION

For many years accounting has been serving humans in the development of civilisation. As the element of an information system it is a reliable source of various data for regulatory, social, economic and environmental purposes. According to Elliot, et al. (1993) “Accounting is the art of communicating financial information about a business entity to users (…) The communication is generally in the form of financial statements which show in money terms the economic resources under the control of the management. The art lies in selecting that information which is relevant to the user and is reliable” (p. 3).

The type and extent of information presented in the financial statements varies between countries. For a long time many authors have been engaged in studying the factors that allow for a better explanation of different accounting practices among various countries. Cultural conditions are more often regarded as one of the reasons for these differences. Cross cultural psychology may prove helpful in becoming aware of one’s own cultural identity. Researchers of this field try to systematise the traits characterising particular cultural circles. The objective of this article is to present three basic typologies of cultural value models: the conception of S.H. Schwartz, G. Hofstede and S.J. Gray. Next more recent studies that have examined the impact of national culture on accounting using these theoretical frameworks are presented.

ACCOUNTING IS THE ART OF COMMUNICATING... IN THE DEVELOPMENT OF CIVILISATION

The importance of Hofstede’s dimensions of national culture in accounting is the national culture’s influences on the nature of accounting practices. It is claimed in the literature that the dimensions such as individualism, power distance and uncertainty avoidance are most significant for accounting (Gray, 1988, p. 8-11). For example, it is argued that in a country with high uncertainty avoidance, efforts are made to minimize uncertainty. This means in the area of accounting that rules and regulations tend to be rather detailed and rigid. Hofstede’s model of cultural patterns was extended by Gray (1988) who introduced a framework for analyzing the development of accounting systems by using accountants’ value systems (named a country’s accounting subculture), which derive from societal values. These societal values are shaped by external and ecological influences such as: trade, investment, of life. The crucial issue of this dimension is the way societies allocate social roles to the sexes. In later work, Hofstede (2007) added a fifth cultural dimension: Long versus short – term orientation (also called ‘Confucian Dynamism’). This dimension stands for the way people favor pragmatic, future-oriented virtues. According to him, “Societies with a short-term orientation generally have a strong concern with establishing the absolute Truth. They are normative in their thinking. They exhibit great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results. In societies with a long-term orientation, people believe that truth depends very much on situation, context and time. They show an ability to adapt traditions to changed conditions, a strong propensity to save and invest, (…), and perseverance in achieving results.”

Using measures of each of the cultural values for a group of countries included in the study, Hofstede classifies them into ten different cultural areas. The Anglo cultural area, for instance is characterized by high individualism, low uncertainty avoidance and power distance and moderate masculinity. As the opposite, the Less Developed Latin cultural area (e.g., Colombia, Ecuador, Mexico, Venezuela) is described by low individualism, high uncertainty avoidance, and power distance and quite high masculinity. The importance of Hofstede’s dimensions of national culture in accounting is the national culture’s influences on the nature of accounting practices. It is claimed in the literature that the dimensions such as individualism, power distance and uncertainty avoidance are most significant for accounting (Gray, 1988, p. 8-11). For example, it is argued that in a country with high uncertainty avoidance, efforts are made to minimize uncertainty. This means in the area of accounting that rules and regulations tend to be rather detailed and rigid. Individualism affects accounting in terms of disclosure practices and income measurement rules (Gray, 1988, p. 9-11).

Hofstede’s model of cultural patterns was extended by Gray (1988) who introduced a framework for analyzing the development of accounting systems by using accountants’ value systems (named a country’s accounting subculture), which derive from societal values. These societal values are shaped by external and ecological influences such as: trade, investment,

ACCOUNTING IS SHAPED BY THE

Mueller et al. (1994) “Accounting is shaped by the environment in which it operates. Just as nations have different histories, values, and political systems, they also have different patterns of financial accounting development” (p.1). Culture is a powerful influence underlying human behaviour and social values, hence its impact on accounting practices cannot be neglected.

To become acquainted with our own cultural identity awareness, cross cultural psychology may prove helpful. Researchers of this field try to systematise the characteristics that shape particular cultures (known as cultural value models). The objective of this article is to present three basic typologies of cultural value models: the conceptions of G. Hofstede, S.J. Gray and S.H. Schwartz. Next more recent studies that have examined the impact of national culture on accounting using Hofstede, Gray’s or Schwartz’s theory will be presented.

ACCOUNTING IS THE ART OF COMMUNICATING... IN THE DEVELOPMENT OF CIVILISATION

In later work, Hofstede (2007) added a fifth cultural dimension: Long versus short – term orientation (also called ‘Confucian Dynamism’). This dimension stands for the way people favor pragmatic, future-oriented virtues. According to him, “Societies with a short-term orientation generally have a strong concern with establishing the absolute Truth. They are normative in their thinking. They exhibit great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results. In societies with a long-term orientation, people believe that truth depends very much on situation, context and time. They show an ability to adapt traditions to changed conditions, a strong propensity to save and invest, (…), and perseverance in achieving results.”

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As mentioned, Gray (1988) used Hofstede’s cultural dimensions to define four accounting accounting values as follows (Gray, 1988, p. 8):

1. **Professionalism versus Statutory Control** – a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control.
2. **Uniformity versus Flexibility** – a preference for the enforcement of uniform accounting practices between companies and the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies.
3. **Conservatism versus Optimism** – a preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, risk-taking approach.
4. **Secrecy versus Transparency** – a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach.

These accounting values in turn, are linked to Hofstede’s cultural dimensions as shown in Table 1.

<table>
<thead>
<tr>
<th>Gray’s Accounting Values</th>
<th>Hofstede’s Cultural Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professionalism</td>
<td>Power Distance</td>
</tr>
<tr>
<td>Uniformity</td>
<td>Positive</td>
</tr>
<tr>
<td>Conservatism</td>
<td>No relationship hypothesized</td>
</tr>
<tr>
<td>Secrecy</td>
<td>Positive</td>
</tr>
</tbody>
</table>


In identifying the dimensions that characterize accounting systems, Gray distinguishes between the statutory authority for accounting systems, and their enforcement, and the measurement and disclosure characteristics of accounting systems. Next, he classes ten cultural areas according to his four accounting values. First, the cultural areas according to their attitudes towards regulations are classified. The values that correspond to these attitudes are professionalism versus statutory control and uniformity versus flexibility at extremes. Second, he divides the cultural areas according to measurement and disclosure practices. The values are named as conservatism versus optimism and secrecy versus transparency. Consequently he differentiates between (shown in Table 2):

1) regulation authority in accounting,
2) measurement and disclosures practices.

<table>
<thead>
<tr>
<th>Gray’s Accounting Values</th>
<th>Accounting Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professionalism/Statutory Control</td>
<td>Authority and Enforcement</td>
</tr>
<tr>
<td>Uniformity/Flexibility</td>
<td>Measurement of assets and profits</td>
</tr>
<tr>
<td>Conservatism/Optimism</td>
<td>Information Disclosures</td>
</tr>
</tbody>
</table>

For example, Gray characterizes the Anglo cultural area by a relatively low rank on conservatism and secrecy (or high on optimism and high on flexibility). As the opposite pattern of a cultural area, the countries of the less developed Latin cultural area (e.g., Colombia, Mexico) tend to rank relatively high in conservatism and secrecy.

**Schwartz’s Cultural Dimensions of Values**

The work of Israeli psychologist Shalom Schwartz is considered by some authors (Johnson et al., 1998) as supplementary to Hofstede’s theory as it proposes an exhaustive set of ‘ethic’ dimensions of culture. Using data obtained from 41 cultural groups in 38 nations, he divided national cultures into seven value types and then summarized these values into two culture-level dimensions. These values are (Schwartz, 1994):

1. Conservatism – values that are important in close-knit harmonious relationships. These values are mainly concerned with security and tradition.
2. Intellectual Autonomy – this value is likely to be important in a society that views the individual as an autonomous entity pursuing his or her interest. Intellectual autonomy places an emphasis on self-direction and flexibility on ideas.
3. Affective Autonomy – this value places an emphasis on hedonism and enjoying life.
4. Mastery – stresses active mastery of the social environment through self-assertion. This value promotes active efforts of people to modify their surroundings and get ahead of others; it encompasses values such as being independent, ambitious and successful.
5. Hierarchy – accentuates an entity’s hierarchical role in society; it reflects social power and authority.
6. Egalitarian commitment – this group of values concerns voluntary commitment to helping to improve the welfare of other people.
7. Harmony – lays emphasis on harmony with nature – protecting the environment, the world of beauty, etc. As mentioned, Schwartz further condensed the above values into two cultural dimensions:

- Autonomy versus Conservatism,
- Hierarchy and Mastery versus Egalitarian Commitment.

The first culture-level dimension contrasts Conservatism with Conservatism. This dimension focuses on the extent to which a society views the individual as an autonomous entity. Conservatism occurs in a society in which values as moderation, social order, security and tradition are favored. Great importance is placed on maintenance of the status-quo and harmonious relations both with the group and the society. Its opposite – Autonomy encompasses values such as curiosity of the world, creativity and promotes enjoyment of a varied life for an entity concentrated mainly on pleasures.

The second culture-level dimensions contrasts Hierarchy and Mastery with Egalitarian Commitment which examines whose interests are more important for the society – those of the individual or those of the group. Using measures of this cultural values Schwartz discriminated seven different cultural regions as follows (Sagot et al., 2007, p. 180-182):

1. West Europe (except from Great Britain and Ireland),
2. East Europe (e.g., Lithuania, Estonia, Poland),
3. English Speaking (USA, Canada, New Zealand, Great Britain, Ireland),
4. Confucian (China, Japan),
5. Africa and the Middle East,
6. South Asia (except China),
7. Latin America.

For example, according to him Western Europe emphasizes intellectual autonomy, and egalitarianism more than any other world cultural region” (2007, p. 180). Confucian influenced countries exhibit a pragmatism, entrepreneurial orientation which combines a strong focus on hierarchy and mastery with a rejection of egalitarianism and harmony (2007, p. 181).

**The Application of the Cultural Dimension Framework in International Accounting Research**

Since the publication of Gray’s theory, increasing attention has been paid to the cultural dimension of accounting. Most of these surveys relied on Hofstede’s and Gray’s theoretical framework to identify cultural factors that are likely to be associated with accounting practices. Schwartz’s theory is less popular in this field of study, however a few studies that apply it have also been found. The table below presents some more recent studies (in this section only selected studies published from 2000 are presented). For a more detailed review of this literature presenting prior researches, see for instance: Doupunik, T. S., Riccio, E. L. (2006) that empirically examined the impact of national cultures on accounting based on the theoretical frameworks of Hofstede, Gray and Schwartz.

<table>
<thead>
<tr>
<th>Author</th>
<th>Theory applied</th>
<th>Sample of countries</th>
<th>Brief description of the study</th>
<th>Conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jegg et al. (2000)</td>
<td>x</td>
<td>Canada, United Kingdom and USA (common law countries), France, German and Japan (code law countries)</td>
<td>The authors investigate the role of culture and legal origin in explaining disclosure levels.</td>
<td>National cultural values do not appear to have significant influence on financial disclosures.</td>
</tr>
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<td>Schultz et al. (2003)</td>
<td>x</td>
<td>France, Germany, USA</td>
<td>The influences of culture on accountants’ interpretation and application of similar financial reporting standards.</td>
<td>The results indicate that, even given similar facts and rules, judgments among accountants vary significantly. Accountants from Germany and France (high uncertainty avoidance countries) are more conservative in their professional judgments than accountants from USA (low uncertainty avoidance country).</td>
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<tr>
<td>Hoep (2005)</td>
<td>x</td>
<td>59 and 42 countries (depending on the particular test)</td>
<td>The author investigates whether national culture (as measured by Hofstede and Schwartz) is correlated with firms’ disclosure levels.</td>
<td>The author finds no links between culture and the level of financial disclosures. However he claims that (2003, p. 22) “it is too early to dismiss culture as an explanatory variable for firms’ disclosure choices”.</td>
</tr>
<tr>
<td>Ding et al. (2005)</td>
<td>x</td>
<td>52 countries</td>
<td>The authors investigate the role of culture as an explanatory factor underlying differences between national and international accounting standards. These differences are measured using the following measures: divergence and absence.</td>
<td>The authors find a strong relationship between cultural values and the divergence index but no significant relationship between these values and the absence index.</td>
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<tr>
<td>Doupnik et al. (2006)</td>
<td>x</td>
<td>USA, Brazil</td>
<td>The authors test two of Gray’s hypotheses: accuracy and conservatism to find whether differences in culture cause accountants in different countries to interpret and apply the same financial reporting standards differently. As a basis for the research, the accounting standards that require accountants to exercise their judgment have been identified (the standards relating to income increasing and income decreasing, e.g. IAS 18 - Revenue, IAS 11 - Construction Contract).</td>
<td>The authors find a strong relationship between the conservatism hypothesis and recognition of income-increasing items but no relationship between this hypothesis and recognition of income-decreasing items. However strong relationships were obtained between the secrecy hypothesis and disclosures of financial information.</td>
</tr>
<tr>
<td>Authors (year)</td>
<td>Country</td>
<td>Methodology</td>
<td>Findings</td>
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<tr>
<td>Njomah et al. (2007)</td>
<td>Iran</td>
<td>The authors examine the relationship between cultural values and accounting practices.</td>
<td>The authors confirm the relationship between cultural values and accounting practices.</td>
<td></td>
</tr>
<tr>
<td>Nsabimana (2007)</td>
<td>USA, Greece</td>
<td>The authors examine the influence of culture on accountants' application of financial reporting rules.</td>
<td>Using Hofstede’s cultural dimensions, the author concludes that US and Greek accountants display different cultural values.</td>
<td></td>
</tr>
<tr>
<td>Ooi (2008)</td>
<td>Australia, Fiji</td>
<td>The author examines the effects of both cultural and non-cultural factors on judgments of professional accountants.</td>
<td>The results of this study show that national culture has a significant effect in the manner of accountants' professional judgment.</td>
<td></td>
</tr>
<tr>
<td>Suhart et al. (2011)</td>
<td>15 countries</td>
<td>The authors use actual reported data (1998–2006) from SEC Form 20-F to test relationships between one of Grzy’s cultural value dimensions and accounting practices.</td>
<td>The results of this study suggest that the cultural environment is significantly and positively related to differences in income measurement practices between countries.</td>
<td></td>
</tr>
</tbody>
</table>

**Conclusions**

Hofstede’s, Grzy’s and Schwartz’s theoretical frameworks have greatly benefited international accounting research. Although the results of the findings outlined above are different, some of them find relationships between cultural values and accounting practices consistent with Hofstede’s, Grzy’s or Schwartz’s hypotheses. The mixed results of these studies also indicate that the validity of cultural dimension theories needs further testing. These researches may prove helpful especially in contemporary times during the widespread process of uniform application of international accounting standards across different countries. It may turn out that global accounting convergence will be very difficult when cultural factors are taken into consideration.

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1. According to the authors (2003), “Divergence measures the degree to which GAAP (author’s note: national accounting standards) and IAS (author’s note: international accounting standards) cover a specific accounting topic but prescribe a different method. Absence measures the degree to which national GAAPs do not cover an accounting issue regulated by IAS (p. 343).
References


Internet Sources
